SPECIAL REPORT: THE PATH TO UNIVERSAL HEALTH CARE

BUBBLES AND BAILOUTS: HOW WALL STREET WRECKED THE ECONOMY, HOW WE CAN FIX IT

THE AMERICAN PROSPECT

LIBERAL INTELLIGENCE

MAY 2008

The McCain Doctrine

Bomb bomb bomb, bomb bomb Iran (and Syria, North Korea, maybe Russia ...)

BY MATTHEW YGLESIAS

THE AMERICAN PROSPECT

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"Mellon pulled the whistle,
Hoover rang the bell,
Wall Street gave the signal,
And the country went to hell."

—SONG OF THE BONUS ARMY (WORLD WAR I VETERANS PROTESTING THE HOOVER ADMINISTRATION'S INACTION TOWARD THE DEPRESSION), 1932

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Cover art by John Ritter

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Lullaby of Baghdad

IS REDUCED VIOLENCE IN IRAQ—REDUCED, THAT IS, from its peak in 2006—a sign that the United States is finally on the road to victory? Or is U.S. strategy in the war, as Steven Simon argues in the May/June issue of *Foreign Affairs*, "stoking the three forces that have traditionally threatened the stability of Middle Eastern states: tribalism, warlordism, and sectarianism" and consequently making Iraq ungovernable? In other words, is the Bush administration purchasing short-term stability in Iraq—and a lulled electorate at home—at the cost of a deepened and prolonged conflict?

There's no doubt that the "surge" in U.S. forces (now being drawn down to 140,000 troops) has bought the administration political relief. News coverage of the fighting has dropped, and congressional Democrats have been stymied in efforts to end the conflict. (I'm writing just before Gen. David Petraeus' congressional testimony.) Perhaps most important, although a majority of the public continues to believe that invading Iraq was a mistake, those who favor the war such as Sen. John McCain have been bolstered in their determination to fight on until victory.

The war's supporters say that whatever the earlier mistakes, the surge and the new bottom-up counterinsurgency strategy have improved security and put al-Qaeda in Iraq on the run. In this view, it would be a disastrous error to quit the war just as the tide has turned.

But a variety of analyses tell a different story. In early April, the congressionally funded U.S. Institute of Peace released a report by experts on Iraq concluding, "Political progress is so slow, halting and superficial, and social and political fragmentation so pronounced, that the U.S. is no closer to being able to leave Iraq than it was a year ago. Lasting political development could take five to ten years of full, unconditional U.S. commitment to Iraq."

But didn't the surge reduce attacks and casualties? Actually, the number of attacks has stabilized at about 570 per week (before spiking in March), and much of the reduction came from three other developments. In early 2007, even before the surge, violence began falling because the ethnic cleansing of Baghdad was mostly finished, and it dropped further after the Shia cleric Moktada al-Sadr declared a cease-fire by his Mahdi Army on August 28.

The third development—the decision of Sunnis in Anbar and some other areas to abandon the insurgency and join *sahwa* or "Awakening" groups to fight the foreign jihadists—has been widely heralded as the war's biggest turnaround. But, as Simon argues in his *Foreign Affairs* article, the U.S. decision to pay and equip these tribal groups strengthens the centrifugal tendencies weakening the Iraqi state. America now funds the Kurdish Peshmerga, the Sunni sahwa, and the Iraqi Security Forces heavily infiltrated by the Badr militia. Our money and arms flow not just to the three major sectarian groups but to contending factions and strongmen within each one.

The "surge" has worked at home politically far better than it has in Iraq.

Current policy, retired Gen. William E. Odom told the Senate Foreign Relations Committee on April 2, "has placed the United States astride several civil wars. And it allows all sides to consolidate, rearm, and refill their financial coffers" at American expense. And the U.S. Institute of Peace report warns, "Empowering the Awakenings—often composed of former insurgents and leaders stridently opposed to the Iraqi government—carries with it a major risk of blowback."

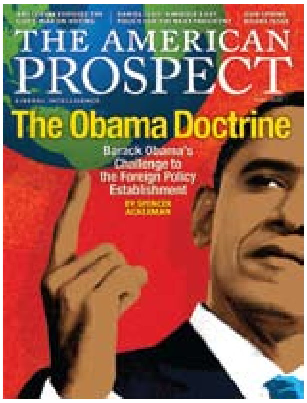
Some analysts hope that even with a weak state, a stable equilibrium will emerge among the warring sects, tribes, and militias, but that hope goes against the historical record and widely held expectations in Iraq that the contest for power will be settled by violence. The United States now finds itself in the bizarre role of arming rival factions to stop a civil war.

And the contradictions don't stop there. The president has defined victory in Iraq as the creation of a state that will be an American ally, while the Iraqi government we are supporting has close ties to Iran and is unlikely ever to oppose it.

But what about staying in Iraq to fight al-Qaeda? General Odom answered that question in his Senate testimony: "The concern ... about a residual base left for al-Qaeda if we withdraw is utter nonsense. The Sunnis will soon destroy al-Qaeda if we leave Iraq. The Kurds do not allow them in their region, and the Shiites, like the Iranians, detest al-Qaeda."

That is as much of a victory as we are likely to get when, sooner or later, we face up to the limits of our power and recognize that American forces cannot be tied up indefinitely trying to prevent Iraqis from killing one another. Enough of the lullaby of Baghdad. Americans need their own Awakening. TAP

— PAUL STARR



Attitude Adjustment

In "The Obama Doctrine" [April 2008], Spencer Ackerman attempts to define Barack Obama's broad strategic thinking on U.S. national security. Opponents of the Iraq War and the Bush administration's boorish imperialism have pinned a lot of hopes on Obama, but his promise is more attitudinal than doctrinal. Obama's slogan about "ending the politics of fear" is both inspiring and important. The scrawny scribblers who urge other people's children to go fight and die for their ideology influence because they terrorize. If our paralyzing fear of terrorism is eroded, let alone ended, it would be all to the good.

The business about "dignity promotion" is another matter entirely. Obama's advisers mistakenly believe that terrorism stems from a lack of "dignity," which threatens to influence poor policy choices. Most terrorists came to hate us because we seek to dominate their part of the world—something we should stop. Recognition of this reality is required to craft policy responses that will stop making the terrorism problem worse.

It's all a bit silly, really: "We're from the U.S. government, and we're here to help you with your dignity." If Barack Obama thinks he can successfully sell that message to the world in January 2009, he's truly audacious.

JUSTIN LOGAN
Associate Director,
Foreign Policy Studies
Cato Institute
Washington, D.C.

A Vote for Choice

Your article in the April issue on Republican dirty tricks ["The Republican War on Voting"] to harass and fight increased voter registration would be more significant if you did not have an editorial condemning Ralph Nader's candidacy for president ["The Bad Old Days"]. You do not advocate keeping Nader off the ballot, but you do claim he cost the Democrats one election and could do it again.

The presumption that, if alternatives are not on the ballot, all must vote for one of the big parties is false. I often vote third-party, and I will not automatically choose the big two. I hate having to vote for two war parties.

Third parties offer ideas we don't get from the big two. We need their input.

HARRY MAJOR
Los Angeles, CA

Class Struggles

The Mississippi experience of African Americans leading the defense of immigrants' rights as the core defense of workers' rights belies all other pundits' commentary on a supposed (or hoped for) black-brown divide in the country.

I personally witnessed the story unfolded by David Bacon ["Black and Brown Together," March 2008] when I attended the 2007 annual conference of the Mississippi Alliance for Immigrants' Rights.

Bacon examines a created controversy and pitches the story from the perspective of hope and racial harmony because he parts from the real kernel of undeniable truth—that black and brown workers comprise the same social class, and in this particular setting in the state of Mississippi, they inhabit the poorest state of the union.

No one has a longer or more sordid history of second-class citizen status than do African Americans in the United States. As Jean Damu pointed out in the article, "drawing a parallel between the situations of blacks and immigrants has its limits," but he also establishes that "the similarities are powerful enough to convince many African Americans that it is in their best self-interest to support those who struggle against black people's historic enemies."

NATIVO LOPEZ
President, Mexican
American Political
Association
Los Angeles, CA

Letters to the editor should be sent to letters@prospect.org or mailed to The Editors, The American Prospect, 2000 L St., NW, Suite 717, Washington, D.C. 20036.

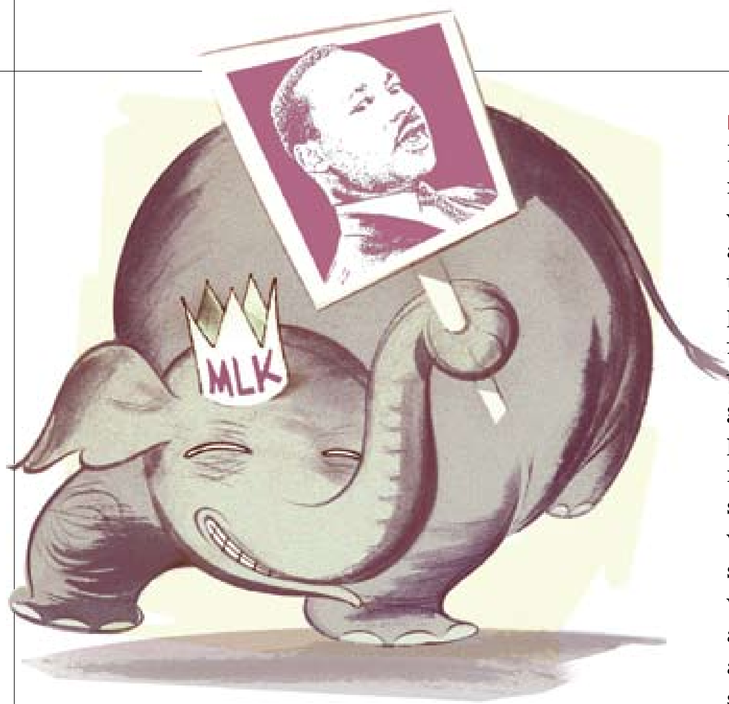
FROM THE EXECUTIVE EDITOR

John McCain insists that he hates war—but, as Matthew Yglesias reports in this month's cover story, the evidence is all to the contrary. Since the mid-1990s, the Arizona Republican has championed the use of force in the Balkans and the Middle East, criticizing those actions we've undertaken (in Kosovo and Iraq) for not employing more forces. He's called for first-strike military action to deal with Iran, Syria, and North Korea. And he's long argued that war offers America an opportunity to realize its highest moral potential—a dangerous romanticism anywhere, but most especially in the Oval Office.

Elsewhere, we commence our series "Fixing the Economy," funded by the AFL-CIO, which looks at long-term causes and posits long-term cures for our floundering economy. Damon Silvers provides an overview of three decades of bad policy that allowed incomes to stagnate and fostered high levels of credit and debt to keep the economy going. Kevin Phillips analyzes how finance and debt-collection supplanted manufacturing as our leading enterprise. (The *Prospect*'s editors don't share Phillips' skepticism toward a new New Deal, but we do think his analysis of how Wall Street remade the economy is groundbreaking—and essential reading.) Columnist Tom Geoghegan proposes cracking down on high-interest loans. And Bob Kuttner details how we can boost Americans' incomes and care by professionalizing child care and senior care. An America that actually pays people to provide care—one of the radical notions in this month's *Prospect*.

— HAROLD MEYERSON

Up Front



MARTIN LUTHER WHO?

IN LATE MARCH, THE NATIONAL BLACK REPUBLICAN Association unveiled its latest attempt to reach double-digit membership: the "Martin Luther King Jr. was a Republican" campaign. The first billboard proclaiming the message now stands alongside I-26 in Orangeburg, South Carolina, where the campaign hopes it will catch the eyes of the estimated 60,000 daily passersby. Of course, the sign doesn't mention that its assertion depends on the definitions of the words "Republican" and "was." And that one would have to forget most of the past 40 years to accept its premise.

You'd also have to forget King's staunch opposition to war, to neglecting the poor, and to pretty much everything else the GOP's come to be known for in recent years. Then you'd have to place Northern Democrats and Southern Dixiecrats into one undifferentiated lump and ignore the conversion of the Dixiecrats to Republicans beginning with the passage of the civil-rights bill and Barry Goldwater's presidential campaign (he opposed the bill) in 1964. That is, the Dixiecrats most opposed to King and all of his works left the Democrats to found the modern Republican Party.

It's not clear which is more ludicrous: convincing black voters that Republican opposition to civil-rights legislation and pretty much anything racially progressive in the past four decades is irrelevant, or trying to convince them that the party affiliation of MLK—and most black Americans—prior to the 1960s should be the basis for choosing a party today.

DEE DAY

In 1993, Dee Dee Myers made history at the age of 31 when President Bill Clinton appointed her as the country's first female presidential press secretary. Now, in her first book, Myers has accused the Clinton White House of gender-based pay discrimination. Myers says she was given a smaller office, worse title, and lower salary than past press secretaries. When she complained to then–Chief of Staff Leon Panetta about a male colleague with less responsibility earning $10,000 more than she was, Panetta told her to suck it up because the guy had a family and she didn't.

In an interview with *Time* magazine, Myers remembered, "Bill Clinton was under pressure to appoint women to visible positions. I was 31, I'd never worked in Washington. Was I ready for this large and visible job? Still he wanted the credit. So he gave me the job but diminished the job."

Has Myers' experience led her to disown the Clinton machine? She refuses to officially endorse a Democratic presidential nominee, but her book is titled *Why Women Should Rule the World*. Make of that what you will.

DANA'S DENIALS

Meanwhile, Myers notes that she's talked to current White House Press Secretary Dana Perino, who says she receives handsome compensation for her work. That is, good money to say ridiculous things. Here are some of her greatest hits thus far.

On military jargon: "I think that men just by osmosis understand all of these things, and they're things that I really have to work at."

On global warming: "There are public-health benefits to climate change," and "many people die from cold-related deaths every winter."

On military installations abroad: "Bases are not technically 'permanent.'"

FUEL EFFICIENCY KILLS

Grover Norquist and his Americans for Tax Reform have found a new reason to attack fuel-efficiency standards with a new claim: They're deadly!

"I mean, 2,000 people a year die because the environmentalists think that you should be in a smaller car because it offends their sensitivities that you're using gasoline," Norquist claimed in an interview on right-wing radio, figures he says come from "government itself."

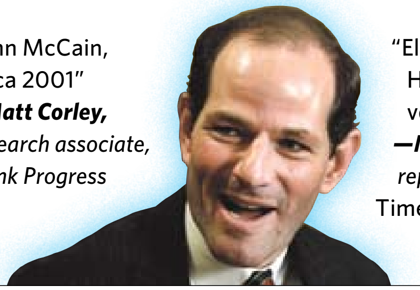
Norquist is probably referring to a study put out in 2002 by the National Acad-

ERIC PALMA; RON EDMONDS / AP IMAGES

THE QUESTION:

IF THEIR CONVENTION IS DEADLOCKED, WHOM SHOULD DEMOCRATS TURN TO FOR THE NOMINATION?

"John McCain, circa 2001"
—*Matt Corley,* *research associate, Think Progress*



"Eliot Spitzer. He's been fully vetted already."
—*Matt Bai,* *reporter,* New York Times Magazine

"Dave Chappelle. His 'Black Bush' sketch proves psychotics make the best presidents."
—*Spencer Ackerman,* *reporter,* Washington Independent

emies, which noted that their projections were based largely on self-reported information from the auto industry, which "could be biased."

Left out of Norquist's analysis are the 2,400 children who are run over every year in the United States in their own front yards, a good portion of them by SUVs backing up with decreased rearview visibility. Also omitted is the fact that while highway deaths have declined in the United States in recent years, SUV–related deaths are the only category on the rise. Oh, and there's that whole problem of the cost of our oil dependency on the economy, soldiers lives, national security, and our planet's climate.

WE'RE SICK. *SICK!*

That's the diagnosis of Chicago psychiatrist Dr. Lyle Rossiter Jr. in his new book, *The Liberal Mind: The Psychological Causes of Political Madness*. Read this book, the press release promises, and you'll discover that "the modern liberal agenda is ... a collectivist/socialist philosophy that contradicts the most basic human dispositions to autonomy and mutuality, to individual liberty and voluntary cooperation." Contemporary liberalism "is a transference neurosis of the liberal mind, which acts out its developmental deficits and conflicts in political arenas." Presumably, this must mean that a clear majority of Dr. Rossiter's colleagues, whom surveys show to be disproportionately liberal despite their having gone through analysis, are nonetheless mentally ill. That doesn't speak well either for Rossiter's chosen profession or for his own powers of political diagnosis.

DENNIS BRACK / LANDOV; ANTON ZHUKOV / FOTOLIA

PARODY *by T. A. Frank*

"We have a dollar that's adjusting and I am for a strong dollar ... And there are certain things that we can do." *—George W. Bush, March 2008*

DEPARTMENT OF THE TREASURY
Memorandum

TO: George W. Bush
FROM: Office of Advanced Ideas
RE: The Dollar—things we can do

While our strong-dollar policy has been **highly successful,** some critics have questioned whether a roughly 50 percent loss in value relative to the euro over the past eight years might indicate some shortcomings in our economic policies. We think not, but we suggest some steps for making the dollar even stronger.

- We've cut taxes. But we ought to get serious about it. **Let's really cut taxes.** No one likes them. And too many other nations pay a lot of taxes. We should tell them to lower their taxes, too, or they should be ready to eat a Baghdad sandwich.
- Invite China over for dinner at the ranch. Be smooth and talk about mutual interests, like fishing and baseball, but then build up to the point. Talk about how **a loan is sometimes more like a gift,** you know? Especially among really good friends.
- There's nothing wrong with one weaker dollar that two weaker dollars can't fix. Time to bring out the best green ink and get busy. **Time to make some money.**
- Sponsor a poetry competition about money. The topic should be **the greatness of the U.S. dollar.** Award the winner $10,000 (approximately 6,400 euros).
- Haven't wanted to bring this up, but remember when you asked God about Iraq in late 2002? He kind of owes us for his answer on that one. Tell Him we're going to go to sleep tonight, but when we wake up **we would really like to read something very nice about the dollar.**
- Take a road trip with Laura, maybe with Barbara and Jenna, too. Just get away for a month. Then come back and see if this whole dollar thing is such a big deal. **Sometimes things fix themselves, basically.**
- Tell people that Bill Clinton is president, just until the dollar gets a little better. Then say you were just joshing but look at that sweet strong dollar. Then maybe say Bill Clinton is your co-president, or maybe not, but make people sort of wonder. Whatever. **It's your last year in office.** Enjoy yourself.

T.A. Frank is an Irvine Fellow at the New America Foundation.

Maverick or Maneuverer?

BY MARK SCHMITT

EVER SINCE "AUTHENTICITY" BECAME THE QUALITY we most value in our politicians, its converse, "hypocrisy," has been the political vice of which we are most conscious. Thus, those who have noticed that Sen. John McCain enjoys a reputation as a "maverick" who "stands up to special interests" while leading a campaign that is operated and funded entirely by lobbyists have seen this as a contradiction. Is McCain a hypocrite, or perhaps a divided soul, with the angelic maverick voice of reform perched on one shoulder and a diabolical little influence-peddler on the other? Who, journalists ask, is the *real* John McCain?

But just to ask the question in this way is to misunderstand not only McCain but the nature of lobbying, power, and the way concepts like "reform" and "maverick" are tamed and warped in Washington.

Most heavily lobbied fights, especially over the telecom regulations that come before the Commerce Committee, which McCain chaired for years, and the billion-dollar contracts scrutinized by the Armed Services Committee, where he also serves, do not pit special interests against the public interest. They are battles among very wealthy people and companies over which of them will get much richer through a publicly conferred advantage. It's easy to be a maverick standing up to one special interest while serving the interests of another.

Those who credit McCain with "a solid record on reform," like Joan Claybrook of Public Citizen, often cite McCain's investigation of the contracting process for a fleet of Air Force tankers, which sent several Boeing executives and Department of Defense procurement officials to jail. While the wrongdoing McCain exposed was real, his achievement is colored by new information that several of the lobbyists closest to him and who now staff his campaign were employed on behalf of Boeing's competitor for the contract, the parent company of Airbus.

McCain also discovered a unique means of exercising power during the Bush years, after almost two decades as a notably ineffectual legislator. When bipartisanship and common sense were scarce resources, McCain realized he could effectively corner the market on both. Wherever there seemed the possibility of a deal—on climate change, immigration, taxes, or torture—McCain swept in to position himself as the one Republican ready to break with party orthodoxy and negotiate. Many of his compromises fizzled, but in other cases, by grabbing the center chair even on issues well outside the purview of his committees, he was able to work a deal that was acceptable to his K Street allies or to the White House, as he did on the torture bill. Even when nothing came of these efforts, he was able to block anyone else from taking that center spot, perhaps someone who might have done more with the opportunity.

Many campaign-finance reform groups are so devoted to McCain that they remained silent as he gamed the system in the primaries.

For a lobbyist, having an ally in that critical swing position is far more valuable than having a blind loyalist on one side of the table. The role was invaluable for McCain—making him, for a time, the second or third most powerful figure in Washington—but also for his lobbyist allies. Consider: If you were lobbying for an industry that wanted to avoid regulation under some new climate-change legislation, whom would you rather have as your friend when the deal is cut? A fanatic who rejects all evidence of human-made climate change, such as Sen. James Inhofe? Or a legislator known for bipartisanship, who will be in the room at the end with the power to shape or break the deal by walking away?

McCain's role in campaign-finance and lobbying reform epitomizes his political success—and his programmatic failure. While passing the Bipartisan Campaign Reform Act in 2002 was a remarkable feat of political maneuvering, the act has done little to moderate the role of money in politics—after all, the worst scandals in congressional history arose after its passage. Its most notable effect was to give McCain virtually total control over the reform "movement" (a poor word for a group of understaffed Washington offices), blocking more ambitious opportunities to change Washington from the outside. While his own reform agenda is now minimal—he still says he wants to limit the independent groups known as 527s, although his campaign cannot succeed without them—many reform groups are so devoted to him that they remained painfully silent when McCain gamed the public-financing system for the primaries, taking a loan based on public financing while avoiding the system's spending limits.

There is no paradox, contradiction, or hypocrisy in McCain. He's a straightforward Washington creature, one who figured out some new ways to exercise power on behalf of the usual interests. TAP

Listening to Iraq

BY ANN FRIEDMAN

RECENTLY I HEARD HAIFA ZANGANA, A NOVELIST and former prisoner of Saddam Hussein's regime, give a speech in Boston in which she urged anti-war activists around the world to work in solidarity *with*—not *for*—Iraqis to achieve peace. It was a simple yet profound request. But how can Americans who oppose the war work with Iraqis as equals when, to many of us, they are nameless, faceless, and voiceless? It's the details that humanize, that enable us to understand people as individuals. And as the war drags on, we get increasingly fewer details about what life is really like in Iraq, making it difficult for even the best-intentioned anti-war American to see Iraqis as partners, rather than as a political project.

The news outlets that still report from Iraq rarely publish accounts of daily life there. Rarer still are narratives from outside the confines of the Green Zone. Sure, we get snippets of information from Iraqi reporters working with Western journalists, but most of the time, Iraqis' voices come to us in the form of react-quotes after a marketplace bombing or sectarian uprising. We don't see what it's like for Iraqis to walk home from the scene of the violence, then make dinner, then put their kids to bed. We lack the humanizing power of detail.

"How the media deals with the U.S. soldiers is a very good example," Zangana later told me over the phone. "When they tell you Thomas So-and-So was killed in Iraq, they have a page about him or her on the Internet and in papers. You read details about his life, how he's been brought up, how he's been educated, how he left a fiancée who was crying. You come to know the person and identify with him and the family and the pain. You come to value their lives."

Blogs used to fill some of this void. Widely read Iraqi bloggers like Riverbend, the 26-year-old pseudonymous woman who wrote a daily account of life in Baghdad, and Raed Jarrar, whose entire family blogged the first three years of the occupation, gave international readers important insights into the real impact of the war—in the form of long, winding narratives, not fleeting quotes.

But between 2006 and 2007, almost all of those bloggers, Riverbend included, left Iraq out of fear for their safety. Some continue to blog about the war, but do so from places like Philadelphia or Amman, and primarily rely on news accounts and updates they hear from relatives still in the country. Meanwhile, day-to-day stories of life under occupation have become much harder to find, especially for readers who don't read Arabic.

It's the details that humanize, and as the war drags on, we get fewer and fewer.

When I asked Zangana which English-language Iraqi blogs are still active and written from Iraq, the only one she could name (though there are probably more) was A Star from Mosul (http://astarfrommosul.blogspot.com/). In it, a 20-year-old engineering student writes under the pseudonym "Najma" about her stress-inducing course load, drama with her friends, and her adorable niece and nephew. Intertwined with those details, she writes about how the war has intruded on her daily life. In one post, she discusses a class picnic, and just two paragraphs later, she writes:

> "We discovered today that a dear classmate, M, was shot few days ago. They told me it hit him in the leg and he's okay. I was shocked to hear the news, nobody has told us, as if we do not care. Last year, he used to be optimistic and his laugh had a special tone to it that I liked very much. ... But this year he's become very calm and depressed that I didn't even notice his absence! I look back at last year's photos and remember how cheerful he was, how very different from how he is now. I can't help but worry about the reasons."

This isn't the stuff of car bombs and sectarian violence. Unlike so many media reports, Najma doesn't identify her classmate as Sunni or Shiite or pigeonhole him in any way. He is a young man who used to laugh and is now depressed. And while Najma has also written about U.S. soldiers searching her house and assassination attempts on her university campus, the most striking thing about her blog is how quietly sad many of its details are.

I realize Najma's stories won't provide us with the key to ending the occupation. But her words contain something that the bleak statistics—more than 80,000 Iraqi civilians killed, 4.5 million refugees—can never convey. If we pay attention, personal stories like Najma's can help us understand the war's human cost. And in this long-running, seemingly distant conflict, that is no trivial accomplishment. TAP

The Militarist

When it comes to foreign policy, John McCain is more Bush than Bush.

BY MATTHEW YGLESIAS

The collapse of the George W. Bush–era Republican Party is a multifaceted story, but no chapter stands out as clearly as the war in Iraq. As the occupation has dragged on and the U.S. casualties have mounted, Bush has watched his public approval ratings spiral downward. By the time the contested GOP primaries came around, even a healthy proportion of Republican voters were saying that they strongly or somewhat disapproved of the war in Iraq.

Under the circumstances, it's not surprising that the GOP is poised to nominate a presidential candidate who will appeal to its anti-war base. What is surprising is that the candidate is Sen. John McCain.

Things were looking bleak for Republicans in February, and it was clear that only a candidate with crossover appeal to war opponents stood any chance of going toe-to-toe with a Democrat. Thus, though it may have angered the conservative base, the Republicans got lucky as McCain emerged as the front-runner over Mitt Romney, the preferred choice of Bush-lovers. But there is a problem. Despite neoconservatism's close association in the public imagination with the Bush administration, and despite McCain's image as a moderate, a look at the record makes clear that McCain, not Bush, is the real neocon in the Republican Party. McCain was the neocons' candidate in 2000, McCain adhered to a truer version of the faith during the early years of hubris that followed September 11, and as president McCain would likely pursue policies that will make what we've seen from Bush look like a pale imitation of the real thing. McCain, after all, is the candidate of perpetual war in Iraq. The candidate who, despite his protestations in a March speech that he "hates war," not only stridently backed the 2003 invasion of Iraq but has spent years calling on the United States to depose every dictator in the world. He's the candidate of ratcheting-up action against North Korea and Iran, of new efforts to undermine the United Nations, and of new cold wars with Russia and China. Rather than hating war, he sees it as integral to the greatness of the nation, and military service as the highest calling imaginable. It is, in short, not Bush but McCain, who among practical politicians holds truest to the vision of a foreign policy dominated by militaristic unilateralism.

IT WASN'T EVER THUS. When McCain entered the House of Representatives in 1983, one of the first noteworthy things he did was oppose the Reagan administration's deployment of U.S. Marines to Lebanon. Throughout the 1980s, McCain was a fairly conventional Cold War hawk, a supporter of Reagan's defense buildup and Central America policy who distinguished himself from the average Republican by being somewhat less gung-ho about deploying troops abroad. Some liberals, like John Judis, author of an excellent study of McCain's shifting thinking, see in this 1980s version of McCain a realist who may re-emerge in the future. It could happen, but this was a long time ago, and even during this dovish phase McCain was hardly averse to demagogic nationalism, lashing out at Germany and Japan for alleged inadequate support for Operation Desert Shield. He fervently backed the first Gulf War, arguing that absent U.S. action "there will be inevitably a succession of dictators" who will pose "a threat to the stability of this entire globe."

After the Cold War, McCain's views entered a period of drift. He criticized humanitarian troop deployments to Somalia and to Haiti and opposed the idea of military intervention in the war over Bosnia—opposed it, that is, until for somewhat murky reasons he changed his mind and decided to support President Bill Clinton's decision to act. Once this Rubicon was crossed, McCain would never look back, and for over 10 years now he has consistently positioned himself as the most hawkish major figure in American electoral politics—the proud exponent of an ambitious and dangerous conception of America's role in the world.

The origins of the neo-McCain are bound up with the trajectory of a magazine, *The Weekly Standard*, whose first issue was published on September 18, 1995, not long after McCain's change of heart. Under the editorship of William Kristol, the magazine swiftly emerged as part of a revived school of neoconservative thinking about foreign policy. These intellectuals and McCain would come to form a symbiotic relationship, with the war-hero senator providing an electoral standard-bearer for their somewhat odd ideas, and the intellectuals providing a man with little interest in policy a rationale for his presidential ambitions.

In the summer of 1996, Kristol, along with frequent collaborator Robert Kagan, published a *Foreign Affairs* essay calling on the Republican Party to adopt what they called a

Will The Real Neocon Please Stand Up? President Bush meets with McCain in the Oval Office before publicly offering him his endorsement.

ERIC DRAPER / UPI / LANDOV

"neo-Reaganite" foreign policy featuring a large increase in defense expenditures, more American involvement in matters around the world, and less U.S. reliance on multilateral institutions. The aim of this was to create a world of "benevolent hegemony" in which unilateral military force would undergird a stable world order. This was partly a theory of foreign policy and partly a theory of electoral politics, with Kristol and Kagan arguing that "Reagan's earlier successes rested as much on foreign as on domestic policy" and that neo-Reaganite militarism "would be good for conservatives, good for America, and good for the world." The following year, Kristol and David Brooks also penned an influential *Wall Street Journal* op-ed calling for a national greatness conservatism. "Wishing to be left alone is not a governing doctrine," they wrote, rejecting the libertarian strand on the American right. But instead of a turn toward liberalism, they wanted to center conservatism on "the appeal to American greatness," a notion libertarians Virginia Postrel and James Glassman memorably lampooned as "a kind of wistful nationalism in search of a big project."

And, indeed, the national greatness essay was notably vague as to what the next big project was supposed to be, or why. One plausible candidate was, however, the neo-Reaganite foreign policy, a protracted quest for world domination being about the biggest project under the sun. All that was needed was a practical political leader, and McCain, a longtime admirer of Teddy Roosevelt, became the vessel for the Kristol/Kagan/Brooks fusion of reform and imperial adventurism. In the fall of 1997, McCain went on Fox News and lamented that the U.S. hadn't overthrown Saddam Hussein during the Gulf War, thus newly embracing a key neocon talking point in the battle against the realist GOP establishment that dominated the George H.W. Bush administration. A year later McCain sponsored the Iraq Liberation Act, one of the first pieces of legislation pushed by Kristol's "neo-Reaganite" advocacy shop, the Project for a New American Century (PNAC), which committed the United States to a policy of "regime change" and support for the Iraqi opposition, and pressured the Clinton administration to provide funds to Ahmad Chalabi's Iraqi National Congress. During this same period, McCain went to members of Kristol's circle such as Randy Scheunemann (currently a foreign-policy aide in McCain's campaign), Daniel McKivergan (now back working for McCain after stints at PNAC and the *Standard*), and Marshall Wittmann (currently communication director for McCain pal Joe Lieberman) for advice on substantive and framing aspects of foreign policy.

McCain explained his new approach in a March 15, 1999 speech at Kansas State University. The cornerstone of his thinking was a sweeping doctrine, "call it rogue-state rollback if you will" of "supporting indigenous and outside forces that desire to overthrow the odious regimes that rule these states." All decent people, of course, greatly admire the work of dissidents laboring under autocratic rule. But actually making support for such dissident movements the *centerpiece* of our approach to these countries carries significant dangers. In particular, most observers in and out of government thought it was likely to prompt a new fiasco along the lines of the Bay of Pigs. But at a time when a full-scale invasion was unthinkable, this was the leading hawkish alternative to the Clinton administration's containment policy, backed by the same group of pundits and analysts, from Paul Wolfowitz to William Safire to Charles Krauthammer to Christopher Hitchens, who would later beat the drums of war in 2003. McCain sought to associate himself with this alternative, arguing in Kansas that the flaws of the Clinton administration's overall strategic approach to Iraq have "been on full display."

But one important factor separated McCain from the rest. Wolfowitz had argued in congressional testimony that regime change could be effectuated easily in Baghdad, saying the United States need only "muster the necessary strength of purpose." Speaking in March, however, McCain seemed perfectly aware that counting on the opposition might not work.

"If you commit to supporting these forces," he cautioned, we must be willing to "accept the seriousness of the obligation" and not "abandon them to the mercies of tyrants whenever they meet with reversals." In other words, McCain believes that supporting opposition elements, financially or logistically, implies an obligation to come in and bail them out with direct military intervention if they get into trouble. To McCain, however, this was not a reason to reconsider the wisdom of the rollback strategy. Rather, he cryptically remarked that "character counts, my friends, at home and abroad" and left rollback as the centerpiece of his approach.

McCain repeated this trope throughout the speech, drawing on his personal history and adopting the rhetoric of moral seriousness about the consequences of committing American forces. But awareness of the consequences was, for McCain, no reason to avoid starting a war. Indeed, McCain almost seemed disappointed that the Clinton administration managed to peacefully resolve the North Korean nuclear crisis with the "agreed framework" of 1994. He remarked in Kansas that "a firmer response to North Korea might have triggered a war, a war we would win, but not without paying a terrible price." McCain was sophisticated enough to recognize that other policy options such as refusing aid to the North might nonetheless have resulted in conflict "as the North's last desperate measure."

This analysis, in the hands of a normal person, becomes a *defense* of the Clinton administration's policy—though a bit distasteful, the agreed framework was the only way to avoid a destructive war. Not, however, to McCain. In his view, efforts at conflict prevention are fundamentally misguided. He told the Kansas State audience that notwithstanding the Clinton administration's efforts, Korea's leaders "remain quite capable of launching in their country's death throes one final, glorious war. But now, they are much, much better armed." In short—war is inevitable, so better to get it over with as soon as possible. McCain, unlike most neocons, is no chicken hawk, but while his rhetorical points of emphasis are different from typical neocon fare, his strategic ideas are the very essence of the neocon notion that threats of unilateral preventive war should play the primary role in America's approach to nonproliferation. It was, in short, the essence of the "Bush doctrine" several years before Bush ever articulated it.

THE MCCAIN-NEOCON SYNTHESIS reached its apogee in 1999 and 2000, under the dual pressures of war against Serbia and the Republican presidential primary. It became difficult during this period to say where McCain's legislative and electoral strategies began and the *Standard*'s editorial agenda ended. After the bombing of Serbia had been underway for about a month, Kristol and Kagan wrote an editorial crediting "McCain's leadership" for the fact that "according to the polls, a majority of the American people support sending U.S. and NATO ground troops into Yugoslavia." They looked to McCain to redefine the goals of the war such that "the only thing to discuss with Milosevic is his unconditional surrender." During a May 1999 *Hardball* appearance, McCain was doing his best to lead the country in such a direction, calling on Clinton to "do everything necessary to gain victory," and defining victory as "not to go to the negotiating table with some guy and beg him for a deal, but to tell him what to do."

Rather than hating war, McCain sees it as integral to the greatness of the nation, and military service as the highest calling imaginable.

At the time, McCain was backing an amendment on the Senate floor that was designed to force Clinton to initiate a land invasion of Serbia. "Ground forces," Kristol and Kagan explained, "will be needed to accomplish what the air war is not now accomplishing—that is, to deal Slobodan Milosevic the decisive military defeat that is the only acceptable outcome of the war." To that end, they called for the passage of McCain's resolution.

Transforming the Kosovo conflict from a war fought with limited means for limited objectives to a ground invasion of Yugoslavia aimed at producing unconditional surrender in Belgrade would have divided the United States from our NATO allies, stripped the war of any legitimacy under international law, and risked creating the sort of deeply problematic postwar occupation the country has been enjoying in Iraq. Hence the Clinton administration's hesitancy. Eventually, the war was brought to a successful negotiated compromise that avoided a quagmire while securing Kosovo's autonomy. McCain characterized this outcome in a March 2000 floor speech as "unacceptable circumstances" (i.e., diplomacy) leading to a "weak and endangered peace" (i.e., compromise). Thus, having previously positioned himself on the extreme hawk side of debates over the Korean peninsula and Iraq, he secured the trifecta by assuming the same position on the Balkan situation. In all three cases, McCain rejected as inadequate outcomes that avoided open-ended warfare by settling for something short of regime change. At a time when the conservative rank and file's interest in foreign affairs was limited, McCain lost the 2000 primary, winning the support of the *Standard* and the bulk of the neocons but alienating every other significant element of the conservative establishment, which backed the more restrained George W. Bush who, of course, went on to become president of the United States.

But despite McCain's loss in 2000, the strategic concepts he outlined back in 1999 came to be at the core of what we today term the Bush doctrine. Most significant is the emphasis on preventive war as a tool of policy. As outlined in McCain's disquisition on North Korea, the fact that some state does not, in fact, pose an imminent threat to the United States is no reason to refrain from attacking it. On the contrary, the fact that a state is nonthreatening is a reason to attack it *as soon as possible*, lest it become more powerful over time. In Bush's hands, this concept has led not only to the fiasco in Iraq but also to North

Korea's acquisition of nuclear weapons and to several missed opportunities to secure the verifiable disarmament of Iran.

McCain has pushed this doctrine longer, harder, and more consistently than has Bush. In the spring of 2002, when the Bush administration was still formally committed to reinvigorating the inspections process in Iraq, McCain was planted firmly on the administration's right flank, offering a strident call for regime change in Baghdad. In a speech to the American Jewish Committee, McCain explicitly drew the links between his 1999 rollback vision and the disastrous course on which Bush was about to embark the nation, saying proudly that "several years ago, I and many others argued that the United States, in concert with willing allies, should work to undermine from within and without outlaw regimes." Now, he said, the president had articulated a policy wherein "dictators that support and harbor terrorists and build [nuclear, chemical, or biological] weapons are now on notice that such behavior is, in itself, a *casus belli*. Nowhere is such an ultimatum more applicable than in Saddam Hussein's Iraq."

At a time when politicians were bowing to the pressure to support the war but also offering careful caveats, McCain did the reverse. He went further than even Bush in predicting that the liberation of Baghdad "will serve as a counterpoint to the state-directed Arab media's distortion of the Palestinian conflict," embracing the view, then popular on the neoconservative fringe, that the road to Jerusalem ran through Baghdad. Likewise, McCain advanced the idea that remaking Iraq as a democracy "cannot be the end" of an American effort to re-order political conditions throughout the Middle East. This commitment is precisely the blunder that led the United States to compound the error of invading Iraq by later spurning peace offerings from Iran and rejecting all entreaties to make a serious effort at stabilizing the regional situation through engagement with Iraq's neighbors. And of course it's the same commitment that has led to repeated outbursts of anti-Iranian saber-rattling from the Bush administration, as the hawk faction with which McCain has consistently aligned himself threatens to seize control of the policy agenda and plunge the country into a new conflict.

OPTIMISTIC LIBERALS NOTE that McCain has shown some capacity to change his mind, and that he has expanded his circle of advisers beyond the core group of neoconservative fanatics. But despite the disaster of Iraq, McCain remains as committed to a far-right vision of American foreign policy as ever. Well-known campaign "gaffes," like when he sang "bomb bomb bomb, bomb bomb Iran" to the tune of The Beach Boys' "Barbara Ann," are more than verbal fumbles on the part of a 71-year-old man—they are expressions of views McCain articulates with regularity.

While Bush has been criticized for advancing an unduly broad conception of the terrorism problem, allowing Iraq, Iran, Hamas, and Hezbollah to all be swept together with al-Qaeda, McCain sees a need to go *even bigger*. In a May 2007 speech to the Hoover Institution, McCain explained that the so-called war on terror is merely part of a "worldwide political, economic, and philosophical struggle between the future and the past, between progress and reaction, and between liberty and despotism." The despotism problem, in McCain's view, goes beyond the traditional axis of evil and requires us to not only "not put pressure on dictators in Iran, Sudan, Zimbabwe, Burma, and other pariah states" but also to fret that Russia and China have joined forces to block such pressure. At a time when the Bush administration has to some extent backed away from rogue-state rollback, McCain has decided to double down, concluding that the rogue-state problem can't be resolved until *all* autocratic powers are brought down. "Iran is able to aggressively pursue nuclear weapons and hegemony in the Persian Gulf," he said in the Hoover speech, "in part, because it has been shielded by the world's powerful autocracies."

To combat this alleged conspiracy of dictatorships, McCain has proposed creating a "worldwide League of Democracies," whose role would be to create an alternative mechanism to the United Nations that could facilitate coercive action "with or without Moscow's and Beijing's approval." His campaign Web site further ups the ante for conflict with Russia and China by going beyond the standard missile defense mumbo jumbo to describe his planned shield as intended to "hedge against potential threats from possible strategic competitors like Russia and China," in contrast to a Bush administration which has limited its shield rhetoric to rogue states. McCain would take an impractical and somewhat provocative idea and then make it worse by injecting additional provocation for no real reason.

At Hoover, McCain referred to his foreign-policy agenda as a "vision of a new era of enduring peace based on freedom," but it's clear that his policies will lead to more conflict than peace. Some of McCain's ideas are so unrealistic that it's hard to know what they would amount to in practice—for example, there's no indication that any countries are eager to sign up for his League of Democracies. But a policy of rogue-state rollback would be a recipe for a new cold war (or two) with a few proxy conflicts thrown in for good measure. If we take McCain at his word, his administration will be prepared to back up our proxies with direct military intervention if necessary. What's more, McCain has made it clear over the years that he holds an unusually expansive view of what military action entails—namely a willingness to press through to the end and hold out for total victory irrespective of the cost.

McCain correctly observes in a November/December 2007 *Foreign Affairs* article that it should be possible to get the existing nuclear powers to push for revisions aimed at closing some of the loopholes in the Nuclear Non-Proliferation Treaty and thus greatly enhance American security. Unfortunately, the rest of his agenda pushes in the direction of much more nuclear proliferation. An avowed American policy of undermining Russia's and China's nuclear deterrent would force Russia and China to engage in new nuclear buildups to re-establish it, prompting a cascade of proliferation in India, Pakistan, and possibly beyond, and likely wreck all effort at reviving the multilateral arms-control regime. Meanwhile, the rollback policy will prevent any sort of diplomatic arrangement with potential proliferators like Iran and North Korea.

McCain has said that in his opinion, "there's only one thing worse than the United States exercising the military option; that is a nuclear-armed Iran." If he means those words seriously, then a policy that takes meaningful diplomacy off the table will mean war with Tehran—just as McCain's "joke" about The Beach Boys song indicated. If he doesn't, it'll mean Iran moving closer to nuclear weapons capabilities. Similarly with North Korea, McCain's approach will either mean a disastrous military confrontation or a collapse of the diplomatic arrangement that is keeping North Korea's arsenal in check.

Perhaps most disturbingly of all, McCain appears to be grounded not only in dangerous ideas about international relations but also in an active hostility to prudence. In David Brooks' 1999 McCain-lauding essay, "Politics and Patriotism: From Teddy Roosevelt to John McCain," Brooks writes that McCain and others worry "that we have become a nation obsessed with risk avoidance and safety." The cure? To follow Roosevelt who "saw foreign-policy activism and patriotism as remedies for cultural threats he perceived at home." De-euphemized, Roosevelt saw war as a positive good; in his years as New York City Police Commissioner he yearned for a now-obscure 1895 border dispute between Venezuela and the British colony of Guiana to turn into a great power conflict. "Let the fight come if it must," Roosevelt wrote to Sen. Henry Cabot Lodge. "I don't care whether our sea-coast cities are bombarded or not; we would take Canada ... the clamor of the peace faction has convinced me that this country needs a war." Only three months later Roosevelt mused that "it is very difficult for me not to wish a war with Spain, for such a war would result at once in getting a proper Navy." The indifference to questions of national strategy here is a bit frightening, but to Brooks' way of thinking, it's a small price to pay to combat cultural threats at home.

McCain's strident advocacy of the "surge" in Iraq is sometimes seen as political opportunism, an effort to move right in time for the Republican primaries. This interpretation both sells him short and gives him too much credit. McCain has, obviously, used his early and unequivocal enthusiasm for the surge to build bridges with the right, just as he's eager to use the surge's alleged success as a bludgeon with which to beat the Democratic Party. But while your typical partisan Republican member of Congress has simply backed Bush's Iraq policy through all its twists and turns, McCain has always stayed fixed on a policy of maximum force even as the political valence of that policy has shifted. The idea that more U.S. forces should be sent to Iraq began as a line of attack on Bush popular among the hawkish wing of the Democratic Party in 2003 and early 2004, and McCain was happy to break with his party to support it. Eventually, Democrats abandoned this concept and McCain was content to stand alone as an advocate of more troops. And then Bush came around to something resembling McCain's way of thinking. No doubt this *was* convenient for McCain politically, but to see it as *driven* by political expediency is to ignore both McCain's record on Iraq and the fact that he espoused a very similar line on Serbia in the late-1990s.

The military, and an expansive view of the extent to which it should be deployed around the world, is at the very core of McCain's personal and political identity. His father and grandfather were both admirals, the former led Pacific Command during the Vietnam War, and the latter sailed in Teddy Roosevelt's Great White Fleet and helped put down the Philippine Insurrection. McCain got his introduction to politics as a kind of bloody-shirt prop of the Nixon administration, which liked using the returned POW as a political club against antiwar activists. He became a frequent guest at Ronald and Nancy Reagan's dinner table, and his first political job was as the U.S. Navy's liaison to the Senate, where he helped spike a Carter administration effort to kill plans for a new "supercarrier." There's cynicism and opportunism aplenty in McCain's record, but it's the vision of leading America in a neo-Rooseveltian, neo-imperial direction that forms the part of the agenda that McCain is least willing to deviate from.

According to Matt Welch, author of *McCain: The Myth of a Maverick*, while McCain was imprisoned in Vietnam, "submerging and channeling his individuality into the 'greater cause' of American patriotism became McCain's reason for living" and has been the guiding star of his political career. In McCain's view, politics should be understood as an ongoing battle between selfishness and the search for a higher cause. This is the vision that has driven his more admirable domestic-reform efforts (as well as his more bizarre ones like his quest to ban mixed-martial arts fighting), but when applied to foreign policy the results are frightening. McCain's Rooseveltian vision is not of a willingness—even an excessive willingness—to use force to advance the national interests or important dearly held moral principles. Rather, he sees the nation as having an interest in fighting wars. The combat itself constitutes the advance of important moral values, elevating the country from such banal national security concerns as "safety" and creating the opportunity for heroic displays of courage of the sort McCain himself made in Vietnam. In the context of the 1990s, and McCain's 2000 presidential bid, this sort of nationalistic fervor struck some as a useful tonic for a nation whose politics seemed dominated by quibbling over the meaning of the word "is."

The neocons' first choice may have lost the primary in 2000, but through Bush we've had the opportunity to observe seven years of neoconservative high drama and higher causes, and most people don't like it very much. Most, that is, except for McCain, who gives every indication of wanting to shift neoconservatism into higher gear. He is the foremost proponent of an imperial conception of America's role in the world since Teddy Roosevelt, the most persuasive advocate of "national greatness" in practical politics, and the most loyal adherent of neoconservative ideas in Congress. And possibly the next president of the United States. **TAP**

Matthew Yglesias, *a former* Prospect *staff writer and an associate editor at* The Atlantic, *is author of* Heads in the Sand: How the Republicans Screw Up Foreign Policy and Foreign Policy Screws Up the Democrats *(April 2008).*

The Green Gap

As environmentalists confront the challenge of climate change, can they also confront the race and class issues that have divided not just the movement but America?

BY KATE SHEPPARD

Rodney Lee's hometown of Richmond, California, has a national reputation for two things: the highest per capita murder rate in the state and one of the highest rates of breast cancer in the country. The East Bay city of 103,000 has been wracked by gang violence, with a murder rate five times the national average. It sits in the shadow of a giant Chevron refinery, and at least 400 industrial sites in the city have been listed as sources of pollution.

This is the Richmond that Lee has known for most of his 28 years. The explosion of a General Chemical company rail tanker in 1993 released a 17-mile cloud of poisonous gas, landing 25,000 residents in the hospital. Lee recalls some kind of spill every three months throughout his life, due to nearby industrial plants like the Tesoro Petroleum refinery. The companies often offered Lee and his neighbors settlement money, which folks in this economically depressed city were happy to take. "That's like the thing Richmond people do for money, wait for chemical spills and go apply for the money they give you to be quiet about it," Lee says.

Lee is well acquainted with money troubles. After an extended illness forced him to take time off from his job at the local telephone company, he couldn't find steady employment. He worked a variety of minimum-wage service jobs, but had been out of work for three months last year when a cousin convinced him to enroll in Richmond BUILD, a job-training program the city government launched in 2007 to prepare residents for jobs in construction, energy efficiency, and solar power. "I never even seen a solar panel before I joined the program," Lee says. Seven weeks later, he was up on a roof installing them. The idea of working in solar energy captivated him, and he started practicing for interviews in order to secure a job in the industry. When he graduated in December, he had already landed a position as an operations assistant with Solar City, a local company.

It's through people like Lee that Richmond BUILD hopes to address the city's poverty, violence, and toxic legacy—and put Richmond on the map as a starting point for a new green economy. Some students come to the program after doing time in prison for dealing drugs. Many didn't finish high school and have never held down a full-time job. One graduate recently confided in his instructor that he couldn't work in one part of town because he'd been shot in the chest there last year. Students in the program wear T-shirts that are bright orange—a color chosen because it isn't associated with any local gangs.

Through Richmond BUILD, people like Lee are changing not only their lives but the face of environmentalism. As revolutionary as it may sound to those only acquainted with the "Save the Whales"–style green movement, efforts to directly connect social and environmental concerns aren't new. For 30 years, "environmental justice" groups from around the country have expressed concern about the disproportionate impact of pollution on low-income communities of color, and called upon the mainstream environmental movement to take up the issues of the people who live there. But despite the fact that these communities have borne the brunt of the dirty-energy economy, they have been largely left out of the national environmental conversation.

Now, as the country faces a growing threat of climate change, environmental- and social-justice activists are uniting to articulate a set of solutions that both overhaul the old, dirty economy and overcome the country's class and race divides. "Green-collar jobs" programs like Richmond BUILD have been gaining traction at both the local and federal level, highlighting the need to ensure that Lee and his classmates have a role in moving their cities toward a cleaner economy. If the new movement is successful, the green economy could be one that lifts all boats—and breaks down the barriers that have segregated both the environmental community and the country.

THE ECONOMIC POTENTIAL associated with greening the country is nothing to scoff at. Studies have shown that if the United States were to make a meaningful investment in clean energy and efficiency, 40 million new jobs could be created by 2030, making one in five jobs in the country some shade of green. But most people working in green technology today fit the environmentalist stereotype—white college graduates who drive Priuses and buy organic—and without a conscious effort, this new green economic sector stands a chance of passing by low-income people of color, much like the dot com boom did.

Projects like Richmond BUILD are now laying the groundwork to prevent that from happening yet again.

At the forefront of this convergence of green economic development and social-justice work is Van Jones, co-founder of the Ella Baker Center for Human Rights, an Oakland-based organization that works to keep urban youth out of jail. Jones soon realized that young people in Oakland needed opportunities to escape the poverty and violence in the city, and he saw great potential for jobs in the green economy. "I had to think long and hard about what kind of jobs I thought were legitimate jobs for the young people I want to fight for," Jones says. "We came up with the slogan 'Green Jobs Not Jails.' Then all of a sudden everybody started calling me an environmentalist."

But for Jones, "environmentalism" is "almost too narrow to refer to the changes that need to happen as environmental changes." He says, "We're going to have to have a major shift in the U.S. economy and U.S. culture in order to not just achieve sustainability but to achieve survivability." Over the past few years, he and other young eco-equity advocates have helped bring that message into the national spotlight. Jones, a charismatic spokesperson, has traveled the country to talk to groups ranging from the NAACP to congressional staffs. In September 2007, he announced he was leaving his post at the Ella Baker Center to launch Green For All, a new, national organization to promote green jobs and environmental justice.

Green Jobs, Not Jails: Students in the Richmond BUILD green jobs program

ELLA BAKER CENTER / RICHMOND BUILD

Jones is bringing to the national stage what has been percolating in communities across the country since around 1978, when Dr. Robert Bullard, an environmental sociologist often referred to as the "father of environmental justice," conducted one of the first studies of the disproportionate impact of pollution on communities of color, analyzing the locations of garbage dumps in Houston's black neighborhoods. He found that though the city was only 25 percent African American at the time, 100 percent of all the city-owned landfills were in black neighborhoods. Bullard went on to document similar patterns across the South throughout the 1980s, and his studies helped spur the emergence of environmental-justice groups nationwide to address concerns like the staggering rates of asthma, lead poisoning, and cancer caused by the factories and refineries so often located in poor neighborhoods. "We have documented over the years that there is discrimination in housing, employment, education, voting, and health care," Bullard says. "Why should people not believe that there is discrimination in the application of environmental protection?"

Bullard and many environmental-justice advocates note that the mainstream environmental movement's focus on regulating pollution in the 1960s and 1970s, with landmark accomplishments like the passages of the Clean Air Act and Clean Water Act and the establishment of the Environmental Protection Agency, paid little attention to the interests of low-income communities of color. Well-off white communities were better equipped to take advantage of the new laws, and it seemed to many environmental-justice advocates that these regulations often had the effect of shifting the pollution to communities that didn't have the financial or political clout to fight them.

While this nascent environmental-justice movement was based largely in urban, minority communities, similar work was being done in poor, white, rural areas in places like West Virginia, where coal mining has devastated the environment and residents' health. For these groups, "the environment" wasn't a far-off rainforest or national park but their own backyards—"where we live, work, play, and pray."

But the movement's roots are in urban communities of color. In Richmond, residents united to form the West County Toxics Coalition in 1986, which has pushed for emissions monitoring at Chevron and other refineries. In Oakland, where one in five sixth-graders has asthma, community members have been working since the 1980s to address air-quality concerns related to the 1,500 diesel trucks that weave through the working-class neighborhood of West Oakland on their way to the port. And until environmental-justice groups forced them out of town, a yeast factory and a medical-waste incinerator also plagued the neighborhood, according to Nancy Nadel, a West Oakland resident and city council member who, along with her late husband Chappell Hayes, was one of the first environmental-justice advocates in the city. In the early 1980s, Hayes was known for his creative ways of spreading the word about neighborhood pollution, organizing a youth "eco-rap" group and an African American environmental group called "Greens and Cornbread."

But Hayes' brand of culturally relevant green activism was completely absent from the mainstream environmental movement throughout most of the 1980s and 1990s. Most big green groups are driven by their predominantly white, middle-class, and college-educated membership, often leaving the concerns of low-income communities of color out of the national conversation. Groups like the National Wildlife Federation (NWF) and Sierra Club focused on conservation and "deep ecology" work—open space, deforestation, melting glaciers, dying polar bears, and, most recently, climate change. Inner-city pollution was not on the agenda. "Our members weren't coming from those

neighborhoods, and they weren't talking about those problems," says Carl Pope, executive director of the Sierra Club. "We didn't know about those problems because we didn't live there."

Environmental racism came to the attention of many groups for the first time in 1990 when Bullard published his seminal book, *Dumping in Dixie*. But the environmental-justice and mainstream environmental movements remained largely segregated. One recent University of Michigan study found that more than one-third of mainstream green groups didn't have a single nonwhite person on staff. Neither did one-fifth of government environmental agencies. The same is true in the green innovation and technology fields. Most low-income people of color didn't see their interests reflected in mainstream environmentalism, and therefore didn't see a reason to work within that movement. "That was pretty much the case with environmental organizations around the country," says Jerome Ringo, the immediate past chairman of the National Wildlife Federation. "Poor people were more concerned about next month's rent than depletion of the ozone layer. There was a major disconnect between organized conservationists and the environmental-justice movement."

Ringo is one person who has confronted this divide. His selection as chairman of the NWF in 2005 made him the first African American leader of a major national environmental group, and he also served as the lone African American delegate to the 1997 Kyoto Protocol negotiations. Ringo now heads the Apollo Alliance, a coalition of business, labor, and environmental leaders that advocates for government investment in green jobs and energy independence.

Perhaps unsurprisingly, Ringo came to the mainstream movement from environmental-justice work. In the 1980s, while working in the oil refineries of his home state of Louisiana, he began organizing in the communities affected by the petrochemical industry. When his employer told him he had to choose between his job and his advocacy work, Ringo left the refinery to join the Louisiana Wildlife Federation, where he became the only African American out of the group's 24,000 members at that time. "Conservationists were sportsmen. They were the people who would fish to hang the fish on the wall. Those people who would fish to put a fish on a plate didn't join clubs," Ringo says. "They couldn't afford to anyway."

But that dynamic is changing, Ringo says, as climate change presents a common threat. He points to the devastation following Hurricane Katrina as an example of how the environmental-justice and mainstream green agendas are converging. "When you [heard] mainstream environmentalists talk about global warming, the talk used to be the effect on polar bears and birds," Ringo says. "Hurricane Katrina was able to blow the cover off so many issues, and exposed the public to the importance of dealing with issues like global warming and its impacts [on] people from all walks of life."

EVEN AFTER AN EYE-OPENING EVENT like Katrina, it never really occurred to Rodney Lee and his classmates at Richmond BUILD that climate change is something they should be worried about. It was their coursework—particularly the solar and environmental education part—that brought the issue home for them. "Everybody in our class was really amazed, because they never knew anything about it, or ever really heard the term global warming before," Lee says. There are simply more immediate concerns for most people in Richmond. "They're not worried about polar bears," says Fred Lucero Jr., project manager for Richmond BUILD. "They're worried about a leak in the roof or how to get from here to there without getting beat up or shot."

Jones often invokes this new wave of environmentalism as a continuation of the civil-rights movement. "I think the ethic of disposability gives permission for society to throw away species, energy resources, and people."

For the students of Richmond BUILD, green jobs are a practical way of joining the environmental movement. And in doing so, they're merging the two long-separate strands of environmentalism. No longer is it only about protecting endangered species or faraway glaciers. Environmentalism is also about putting food on the table and reducing asthma rates in your community.

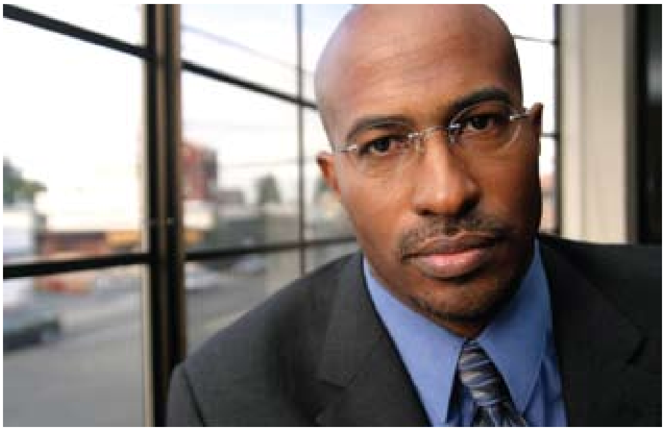
Green-collar jobs are also resonating with political leaders, offering them the twofer of saving the environment while at the same time creating good, local jobs. In Oakland, the Ella Baker Center recently persuaded the city government to invest $250,000 in a Green Jobs Corps, which will launch in the fall. The Corps' three-month program will be the first of its kind in the country, training 40 to 50 city residents with barriers to employment for jobs in renewable energy and efficiency. The Green Jobs Corps is based on a model conceived by Raquel Rivera Pinderhughes, a professor at San Francisco State University who has spent 20 years studying the disproportionate impact of pollution in low-income communities. Pinderhughes, who coined the term "green-collar jobs," explains, "It's a model about how we're going to integrate people who have been locked out of the most vital parts of the American social fabric."

It's no coincidence that these job-training programs are taking off in places like Oakland and Richmond, which are home to a vibrant environmental-justice movement. In Oakland, justice activist Nancy Nadel now sits on the city council and was pivotal in getting funding for the Green Jobs Corps. And as these programs take off, Pinderhughes notes, the environmental-justice movement is critical to ensuring that green jobs remain well-paid positions with good benefits and working conditions. Pinderhughes and the Ella Baker Center are creating a green employers' council to make sure that these businesses are open to the idea of bringing in people who have been left out of the

economy. After all, what good is training these students to install solar panels if no business will hire them?

NOW THAT GREEN ISSUES top the country's list of concerns, Van Jones cautions, "it's important that we don't forget the lessons of the last century about the importance of including everybody in our hearts and our minds, and our policy." For Jones, environmental-justice work is a continuation of the civil-rights movement. "If Dr. King were alive today, he would be standing in the flood waters of Katrina saying that in an age of floods, we can't leave our neighbors to sink or swim," Jones says. "He'd be saying, let's not create a racially segregated green economy."

So far, Jones and his new organization, Green For All, have been critical in bringing social-justice issues to the fore of the environmental discussion. The group scored its first national victory last December when Congress passed the Green Jobs Act as part of the energy bill. The legislation, shepherded through Congress by Speaker Nancy Pelosi, included $25 million per year for programs like Richmond BUILD and the Oakland Green Jobs Corps that create "pathways out of poverty" for low-income people of color. Advocates like Ringo have also been instrumental in moving the green-jobs agenda forward. In his



Eco-Justice: Green For All founder Van Jones, in Oakland, Calif.

THEO RIGBY / THE NEW YORK TIMES / REDUX

role as president of the Apollo Alliance, Ringo sat down with all of the Democratic presidential hopefuls and with Sen. John McCain early in the primary season to push investment in jobs programs with attention to equity concerns. His work paid off: Green-collar jobs made their way into the climate and energy plans of all the leading Democratic presidential candidates. Sen. Hillary Clinton even borrowed the alliance's language, promising an "Apollo-like effort" in clean, renewable energy.

It's not just politicians who are finally getting behind environmental-justice initiatives. Many mainstream green groups have also shown steady improvement on this front. During the late 1980s and early 1990s, prompted in large part by the work of environmental-justice advocates, some mainstream groups added toxics divisions and began partnering with local justice groups. To be sure, environmental-justice work still isn't the most visible portion of the mainstream environmental agenda, and the default imagery on the Web sites of many groups remains animals and ice caps. But groups like Sierra Club, which was one of the first to adopt an environmental-justice division in 1996, have begun partnering with local advocates in places like central Appalachia and Louisiana. Sierra Club also joined with United Steelworkers in 2006 to promote green-jobs policies.

"Environmental organizations have to have a willingness to meet the poor, minority communities where they are and to embrace the issues that are important to those communities," Ringo says. From there, he explains, green groups can begin talking about issues like climate change and bring more poor people and people of color into the environmental movement. The National Wildlife Foundation, in large part because of Ringo's leadership, has added programs to develop environmental awareness and leadership skills in minority high school and college students. Reaching out to these young people, Ringo says, requires working with them on their immediate concerns, and not just expecting them to come to the environmental movement on their own.

As Greenpeace U.S. climate campaign director Chris Miller affirms, climate change has certainly moved human impacts to the center of Greenpeace's talking points. Best known for its work protecting whales, the organization has also adopted a toxics campaign that works on environmental health issues. "I appreciate the fact that for a low-income community in Los Angeles, our work in the southern ocean around whales doesn't impact their lives in a big way," Miller says. But, he's quick to note, that doesn't mean Greenpeace will abandon its "Save the Whales" work anytime soon.

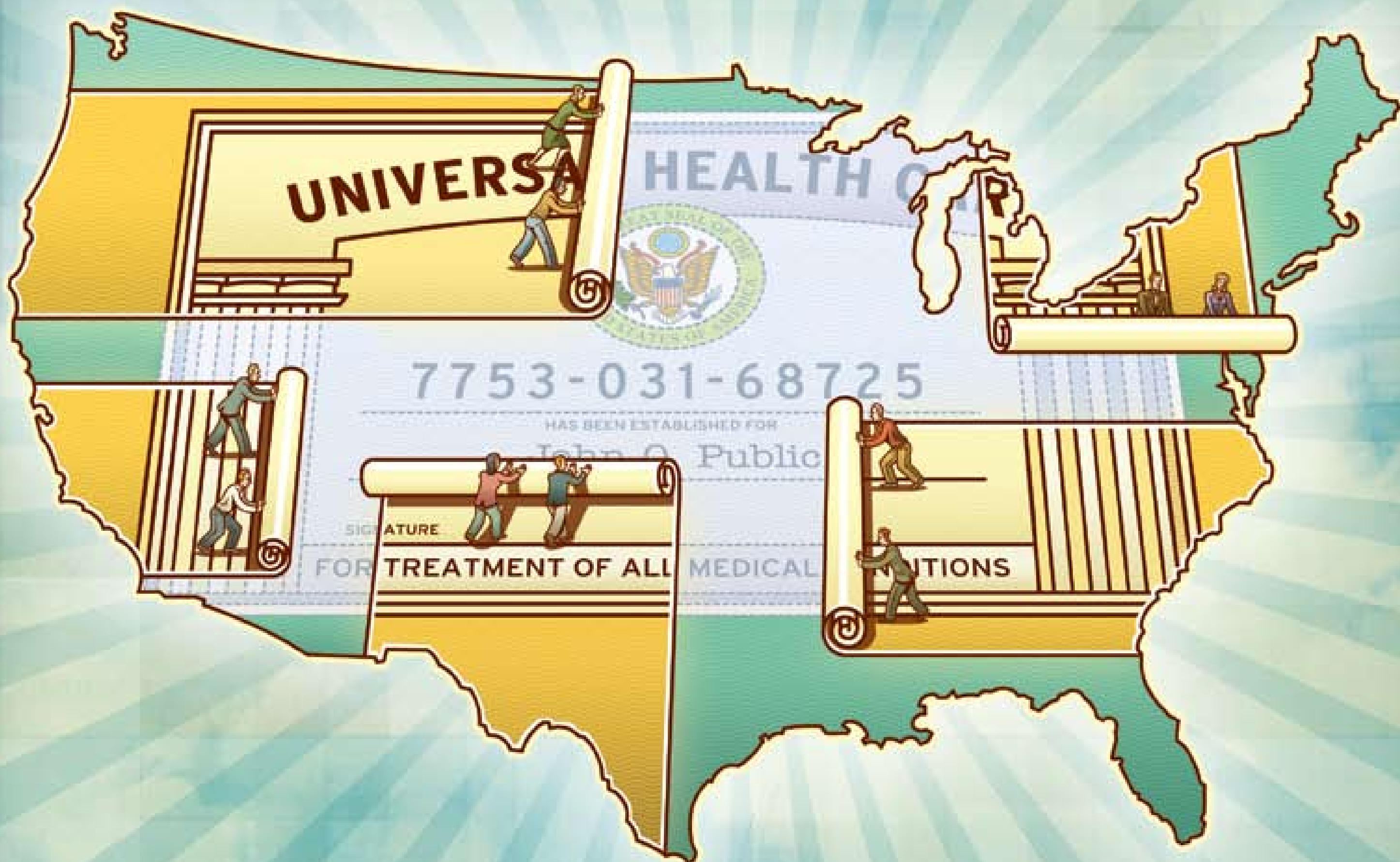
While they are happy to see shifts underway in the mainstream groups, environmental-justice advocates still see a need for their brand of activism. "The environmental-justice movement is not about creating little brown Greenpeaces or little black Audubon Societies or little red Wildlife Federations," Bullard says. "We need our own organizations, but at the same time we want to make sure that these other groups are open so that people who want to work in those organizations have that opportunity."

Of course, it may take awhile for the green movement to start looking more like America. But programs like Richmond BUILD are bridging the long-standing chasm by giving people like Rodney Lee a toehold in environmentalism—and access to the opportunities that a new green economy can provide. One year into the program, 10 Richmond BUILD graduates are already working in efficiency and renewable energy. Lee, one of only two African Americans working for Solar City, says he wants to work toward a job as operations manager there. The $18-an-hour wages and full benefits for him and his family—not to mention getting to reduce the pollution emanating from his hometown and making it a better place for his 1-year-old son, Zaire—make the job pretty appealing.

"Not only is my salary going to help him out in his development and growth, it also helps the development and growth of the planet, so it will be a safer environment for when he gets grown up," Lee says. "Hopefully, I can be able to pass on all the things that I know to him, and hey, maybe he can grow up and get a green job as well." **TAP**

THE AMERICAN PROSPECT | Dēmos

THE PATH TO UNIVERSAL HEALTH CARE



A SPECIAL REPORT WITH ARTICLES BY MARCIA ANGELL, MARC CAPLAN, JONATHAN COHN, TAMARA DRAUT, NEAL HALFON, EZRA KLEIN, ROBERT KUTTNER, AND ANTHONY WRIGHT

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Illustrations by Peter and Maria Hoey

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What Path to Universal Coverage?

The next administration will expand health coverage. Will they fix what's broken—or just inflate costs?

BY ROBERT KUTTNER

AMERICA'S HEALTH-INSURANCE SYSTEM is nearing a breakdown. Not only are nearly one-third of all Americans uninsured at some point every year, according to the Commonwealth Fund, but growing numbers of Americans who are nominally covered are seriously underinsured. When insurance fails to cover medically needed procedures, tests, or prescription drugs, citizens must choose between medical care and other necessities of life.

As many as half of all bankruptcies are filed for medical reasons, according to a Harvard study published in *The New England Journal of Medicine*, and more than three-quarters of those declaring bankruptcy due to medical debt had insurance at the start of their illness.

The slow and steady decline of employer-provided coverage continues, with more and more charges being shifted to employees. America's poor, young, and minority are more likely to be underinsured and to pay a disproportionate share of their incomes for the insurance they have.

Meanwhile, America's public-health resources have been sacrificed to budget cuts. Families, particularly in poor neighborhoods, are needlessly susceptible to easily prevented and treated conditions for which standard protocols are well recognized, such as asthma and diabetes. Screening, early detection, and prevention—the most cost-effective uses of the national health dollar—are being short changed, as are such proven successes as prenatal home nurse visits. Cost-cutting pressures have also led to a degrading of occupations such as nurse's aide and home-care worker, with wages too low to attract skilled people who see the health professions as a career.

Private insurance companies and Medicaid and Medicare have contained their own costs by reducing reimbursements to hospitals and doctors. In response, the medical profession has increasingly come to mirror the rest of the two-class society. While doctors' incomes have kept up with inflation—on average—that ostensible average conceals a growing divide. At one extreme, primary-care doctors face stagnant or declining incomes, increasing costs and caseloads, and time pressures. At the other extreme, some physicians have begun opting out, into what is known as "boutique medicine," setting up practices for affluent patients who can pay their own costs without insurance. This enables the fortunate doctor to earn a high income practicing conscientious, unhurried medicine, and the affluent patient to get the hands-on care that is becoming a rarity. But the vast majority of Americans cannot afford to pay out of pocket for first-class medical care.

A related symptom of the same two-class malaise is the increasing move of specialists to set up day-surgery centers, for high-reimbursement specialty procedures that do not require the full range of services of a hospital. This trend is skimming the cream from the reimbursement system, leaving community hospitals to deal with less remunerative and often

more complex cases, and with dwindling resources. The cost crunch has also left the medical system as a whole with reduced funds to train the next generation of doctors and nurses.

Meanwhile, Medicare faces a looming financial crisis, with insufficient funds to meet projected needs within a decade. However, as the Brookings economist Henry Aaron has observed, the Medicare crisis must be understood as part of the general health-insurance crisis. Medicare faces a cost squeeze because too many health dollars are going to the wrong parts of the health system as a whole. By definition, a system with fragmented, mostly for-profit players is awash in inefficiency. The private drug and insurance industries are enjoying record profits. They contribute to the general misallocation of resources, while the rest of the system is squeezed.

NATIONS WITH UNIVERSAL COVERAGE spend on average about 10 percent of their gross domestic product on health care. They cover everyone, and most have better health outcomes and less disparity of class in medical care than the U.S. Our country, by contrast, spends over 16 percent of GDP, while leaving tens of millions of Americans uninsured and tens of millions more undertreated.

A number of factors have been blamed for these escalating costs—an aging population, defensive medicine practiced in fear of lawsuits, new medical technologies, the fact that medical supply (of hospitals, doctors, procedures, and drugs) tends to generate its own demand. But every other advanced nation faces the same demographic and technological pressures, yet none faces the same trajectory of escalating costs. The reason is that other nations cover everyone, realize huge efficiencies of prevention and public health, and are able to direct care to where it is most cost-effective and not where it is most profitable.

If we fail to attain comprehensive reform, the "cost crisis" will shift more and more costs from insurers and employers onto workers and patients in the form of higher out-of-pocket charges, and onto doctors and nurses in the form a continuing speed-up. The shift to a two-class system will accelerate. Absent comprehensive reform, pressures are already intensifying to use even less efficient and more inequitable approaches, such as health savings accounts to pay for bare-bones, high-deductible plans, privatized Medicare, capped vouchers, and mandated individual coverage. These, in different ways, would provide more windfalls to the private insurance industry, more incentives for insurers to "cherry pick" clients based on medical risk, more differentiation of treatment by income level, and far less adequate coverage.

TODAY THERE ARE NOT THE VOTES IN CONgress to enact a true universal health-insurance system. Any progress toward universal coverage will necessarily be incremental. But the kind of incremental steps will matter immensely—politically and programmatically—in determining the system that we ultimately get. Will they build political coalitions for true, seamless universal health care? Or will they reinforce the fragmentation and inefficiency of the current system and the political power of the drug and insurance industries?

coverage. The basic approach would tax employers who fail to provide good coverage, and use the proceeds to subsidize coverage for the unemployed and for those who could not afford the costs.

The strategy, proposed and promoted by the Yale political scientist Jacob Hacker, solves the political problem of gaining the support both of Americans who like their current insurance and of those who have inadequate coverage. A recent study of the Hacker approach conducted for the Economic Policy Institute by the blue-chip firm, the Lewin Group, calculates that the net additional cost of covering everyone through this basic approach would be only about $49 billion in the first year because of the efficiencies realized, and would save the system as a whole over $1 trillion over the next decade.

Supporters of this general approach believe that it would be a big leap toward universal coverage and would ineluctably put us on a path to true universal insurance. Skeptics worry that private insurers would find ways to target younger and healthier subscribers, thus offering them more attractive insurance at a lower cost than the public plan. There is also the practical problem of just what

By covering everyone, other nations realize huge efficiencies: They direct care to where it's cost-effective, not to where it's profitable.

In the presidential campaign, the Republican candidate, John McCain, proposes more tax credits for the uninsured and a shift to strategies such as health savings accounts and high deductible individual insurance policies, which supposedly create incentives for individuals to spend their health dollars more efficiently. However, this is not where the system's inefficiency resides. McCain does not challenge the basic structure of the insurance industry.

The leading Democratic candidates have put forth proposals that would extend coverage to most Americans who are now uninsured, covering some in a "Medicare-like" system and leaving others with good employer-provided

the ideal version of such a hybrid system would look like, once the industry lobbies and Congress got through with it. And both Clinton and Obama begin with a watered down version of Hacker.

The devil, of course, is in the details. This special supplement to the *Prospect* looks at the question of what path we should take to universal health insurance from several perspectives. Which is most likely to lead to a system that is truly universal, efficient, and affordable? There is no more important issue this election year. These opportunities come once in a generation. If we get a progressive president with a working majority in Congress, our leaders must do this right. **TAP**

The Elusive Politics of Reform

Once again, a new administration and Congress will try to bring us universal health insurance. This time, against urgent cost pressures, will they do it right?

BY EZRA KLEIN

IF HEALTH INSURANCE WERE CHEAP, we could all buy it. If universal health care could get 60 votes in the Senate, we'd all have it. But these two imperatives—the need to control costs and the need to attract the 60 Senate votes required to overcome a filibuster—point in opposite directions. This is the central paradox of health reform.

The most intractable policy problem is not, fundamentally, the 47 million uninsured or the fact that insurers have a business model right out of Dickens. It's cost. In 2006, the average family policy cost $13,600. This is why one out of six Americans are uninsured; they can't afford the premiums. An October 2007 Kaiser Family Foundation poll found that more Americans were "very worried" about being priced out of their health insurance than feared losing their job, their house, or being in a terrorist attack. And with good reason: Premiums have gone up 98 percent since 2000. Wages have not.

Corporate America's outlook is similarly grim. Better Health Care Together, a health-reform coalition that includes Intel, Wal-Mart, and General Mills, recently issued a report, *Health-Cost Crossroad: Why American Businesses Urgently Need Health Care Reform*. The paper warns that "health care cost growth threatens businesses, workers, and the overall health of the American economy," and frets that "if trends continue, health benefit costs will exceed profits in Fortune 500 companies in 2008."

Likewise government. Absent reform, government health spending would be 37 percent of gross domestic product by 2050. (The entire federal government now consumes about 20 percent of GDP.) David Walker, the U.S comptroller general, warns that "we have been diagnosed with fiscal cancer, and we need to start treating it." At the Congressional Budget Office, the normally staid Peter Orszag gives an Al Gore-esque slideshow on the looming threat of health costs that risk bankrupting government finances.

The question, then, is how to limit heath-care costs while still surviving the legislative process. A single-payer system would increase efficiencies, but critics fear that it would control costs excessively, limiting care. Politically, single-payer would mean restructuring about 17 percent of our economy and eliminating multibillion-dollar industries that provide tens of thousands of jobs. It would have to be legislated over the fierce objections of the Republican Party and all conservative Democrats. Conversely, many Republicans, John McCain included, advocate a radical shift of costs onto individuals, controlling spending by pricing care out of reach for tens of millions. Few Democrats or moderate Republicans—or voters—favor this course.

KIDS FIRST?

Looking at this blockage, many observers instinctively grope toward a political stopgap—starting with kids, a very attractive and cheap-to-insure part of the population. Coverage for all kids, they theorize, could make it through the Senate. Once accomplished, the rest of the country would view that success and green-light full reform of the health-care system.

The logic of this strategy fails on two counts. First, as George W. Bush's obstinance on the State Children's Health Insurance Program (S-CHIP) has shown, many Republicans view health-care expansions the way the National Rifle Association looks at gun control—there's no such thing as a little bit. Second, both the Republicans and the Democrats who see S-CHIP as the road to socialism are wrong. Medicare, despite its popularity, hasn't advanced the single-payer movement. It just took seniors out of the constituency for reform. And S-CHIP hasn't even led to its own successful expansion, much less that of the whole health system.

Moreover, covering kids is just covering kids; it does nothing to reform the system. Universal coverage of children, grafted onto the existing system, could actually exacerbate problems of inefficiency and cost. Worse, politicians could posture as if they had made major progress on the health-care crisis, while in fact they would be letting it deteriorate.

SINGLE-PAYER BY STEALTH

Another strategy would incrementally move toward single-payer, alert to the electorate's fear of change. That's one lesson many reformers learned from 1994—know your audience. Among those reformers was Yale political scientist Jacob Hacker, whose book on the failure of the Clinton proposal, *The Road to Nowhere*, concludes that President Clinton had built a plan for wonks, not voters. Cost containment was front-loaded (global budgets, managed care) and required total restructuring of the system. Clinton's plan scared people, introducing unfamiliar and untested concepts like "managed competition" and changing current health arrangements. "They couldn't defend it in simple terms," Hacker says, "because it actually meant a complex set of changes for most Americans."

Following his book, Hacker devised a plan to avoid these pitfalls. His final proposal was embraced last year by the Economic Policy Institute and the Campaign for America's Future, the latter of which worked hard to push it to the candidates. The final plans from Clinton, Obama, and Edwards all looked a lot like the Hacker plan, with some crucial and perhaps fatal political compromises thrown in. More on that in a moment.

Hacker's plan works on a few basic principles. First, no one loses what they already have. You like your current insurance? Keep it, unless your employer kicks you off. Second, a new group market is created (the Health Care for America market, henceforth HCA), where insurers can compete for the business of individuals and employers (who can buy their employees in for 6 percent of payroll). Third, the group market contains a strong public insurer modeled on Medicare, creating competition between private insurance companies and the public offering. The hope is that the public insurer, which will not need to turn a profit and will be free of some of the perversities of private insurance, will prove the most cost-effective and attractive option, leading individuals and businesses alike to gravitate toward it. Over time, it would evolve into something approaching a single-payer system.

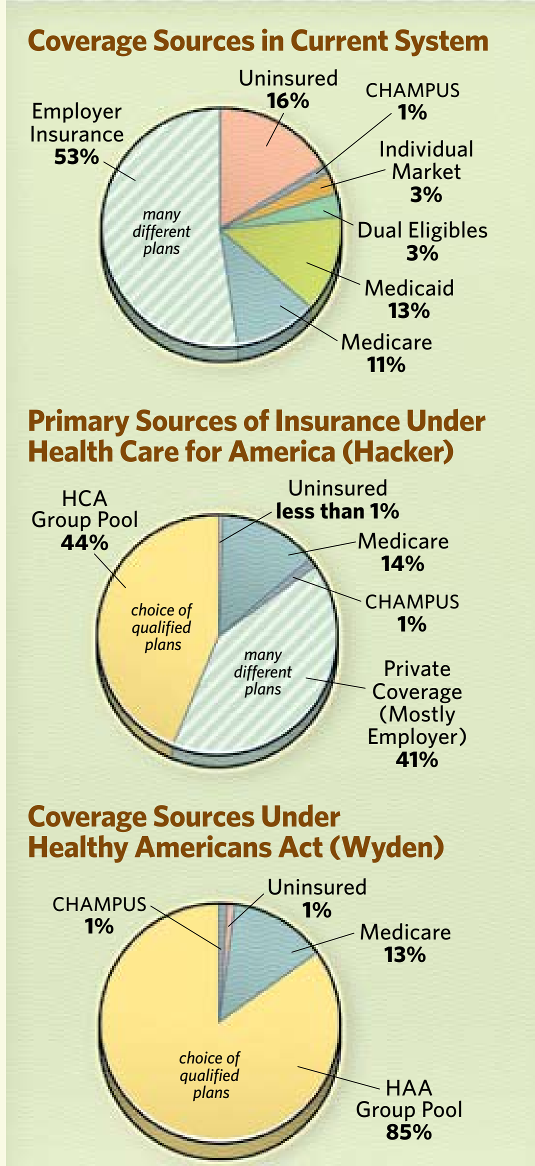
The Lewin Group, currently the gold standard in health-care consulting, has analyzed the Hacker plan and estimated that it will save about $1.04 trillion over 10 years. Some of these savings will come through basic efficiencies, both administrative and technological. But the savings depend heavily on the quiet cost controls built into the HCA. There, spending per enrollee will only be allowed to increase at a fixed rate of that year's GDP growth plus a half percent. Basically, the government mandates spending growth at a far slower rate than that of the private marketplace.

If it works, this has two effects: First, it saves money by mandating that a portion of the system—the HCA—spends less money. This, in effect, is the same way single-payer saves money. It simply caps spending and induces providers to use available funds more cost-effectively. But it also makes the most cost-effective HCA a progressively better deal for businesses to buy into, thus expanding it. Over time, more Americans end up within the cost-controlled structure. According to Lewin's estimates, the HCA would have an initial enrollment of 128.6 million enrollees (mostly individuals and small businesses), while 122 million Americans would remain in private, mostly employer-provided insurance. By 2017, the HCA would have 177.4 million members, while private insurance would be down to 93.5 million. Under these assumptions, the slower spending in the HCA alone would result in $1 trillion in savings.

CAN IT WORK?

But therein lies the danger for the plan. The HCA is created to compete with the traditional private market. With its more attractive terms, the hope is that the HCA will largely overwhelm the private market, becoming a sort of de facto single-payer plan. Indeed, the Lewin analysis factors in this competition, and the brutal effect it will have on the private market, explicitly. "The combined effect of increased market share and a constrained rate of growth in Health Care for America spending would result in pressure on providers to shift costs to the private insurance market," Lewin says, "which will increase private insurance premiums and generate an even larger difference in premiums between HCA and the private insurance market."

But it isn't a single-payer plan. There's still a large private market to contend with, one that won't appreciate being knocked around this way. Private insurers outside the HCA will presumably compete in kind, only in the opposite direction. They'll attempt to cost-shift onto the HCA by insuring healthy, young firms that still offer private insurance at advantageous prices, and pressuring sicker, older companies and individuals into the government options. If they succeed, the risk pool in the HCA will grow expensive, the premiums will grow inordinately pricey, and cost savings won't be realized without cutting care, no matter what the government mandates.



SOURCE: THE LEWIN GROUP

Politically, a robust version of the Hacker plan remains a huge reach. Democrats weren't even able to attract 60 votes to allow Medicare Part D to *bargain* down drug prices, much less set them centrally. Even with a Democratic president embracing some version of Hacker, and a pickup of several Senate seats, many Democrats remain skeptical of price controls by government *diktat.*

While there are differences between the health-care plans of Hillary Clinton and Barack Obama—notably, the much discussed individual mandate—they are both based on structure similar to Hacker's. However, while both include his new, "Medicare-like" group market,

neither uses the group market to set cost controls. Given that this is the prime source of $1 trillion of Hacker's $1.1 trillion in savings, it's hard to see how the Obama or Clinton plans will adequately control costs. They will see some savings from administrative efficiencies and more cost-effective care, but these will be comparatively minor. Nor are Obama or Clinton clear about what employers would have to pay. So they have basically embraced the politically savvy part of Hacker's plan while leaving out the cost controls—and that's before the insurance industry and Congress get into the act. We could be left with a system very much like the current one, just with more subsidies for coverage and more clearly structured insurance choices, but with relentless cost increases that translate into reduced actual care.

BIPARTISAN REFORM?

Hacker, it should be said, is not the only game in town. While versions of his plan are getting the most attention at the presidential level, in Congress, the action is around the Healthy Americans Act sponsored by Sen. Ron Wyden of Oregon. Along with Sen. Robert Bennett of Utah, Wyden has attracted 12 more colleagues, six Democrats and six Republicans, as co-sponsors. Given that any health-care bill will likely need Republican Senate votes, it's the closest thing to a viable legislative process currently in existence.

Wyden's plan differs from Hacker's in two key ways. First, it lacks a public insurer, meaning that there won't be public-private competition. But it compensates for that absence with much more radical system integration. Hacker's plan creates a new group market with about 44 percent of the population, leaving the existing private market with 41 percent or so and most of the remainder in Medicare. The success or failure of the plan will depend on which market can most effectively undercut the other.

Wyden's plan, by contrast, does away with employer health coverage almost entirely. Rather than encouraging employers to transition to a single group market, as Hacker's does, Wyden's forces them to redirect all the money they were spending on employee insurance into paychecks. At the same time, it creates "Health Help Agencies," one in each state, which act much like Hacker's group market—they're regulated structures where various insurers compete for business. No cherry-picking, no high premiums or denials of coverage for pre-existing conditions. Everyone pays the same price, but everyone has to buy insurance that's at least as comprehensive as the current Blue Cross-Blue Shield Standard Plan. There are subsidies for those with low incomes, and penalties for those who don't buy in. Medicare still exists for the elderly.

The Lewin Group also evaluated Wyden's proposal, and they see the possibility for even more drastic savings: $1.48 trillion over 10 years. In Wyden's case, the savings don't come from explicit spending caps in the group market, but because consumers who now see exactly how much they're spending on health care (before, their costs were obscured because employers paid most of the bill) will become more price-sensitive and choose cheaper options. Namely, HMOs. In other words, rather than asking the government to cap spending, as Hacker's plan does, Wyden's plan pushes individuals to do it. Lewin estimates that under Wyden's plan, HMO enrollment will jump from 30 percent to 70 percent, which will bring large cost savings, as HMO enrollment did in the mid-1990s.

As a contingency, Wyden sets up future cost controls if needed. Currently, it's impossible to impose targeted cost reforms because there's no system to impose reforms on. We have a health sector, composed of thousands of self-contained private insurers routed through myriad employers, not a health system. If the system is entirely under one roof, as it is in Wyden's plan, and as it comes closer to being in Hacker's plan, implementing cost controls becomes much easier. A public insurer could be the benchmark, and there could be better incentives to adopt best practices, with smart forms of cost sharing and incentives to only offer cost-effective treatments.

Neither plan has been through legislative compromise, nor vetted by a White House, nor larded up by special interests.

OVERCOMING THE BLOCKAGE

But where the basics of Hacker's structure have a reformist political logic, Wyden's risks running into the same fears that detonated the efforts in 1994. By blowing up the employer-based system, Wyden's risks triggering the natural status quo bias of voters and insurers. In Hacker's plan, the majority of the country sees no change unless they volunteer for it. With Wyden's, the majority needs to buy new insurance. The question is whether Wyden's plan can compensate for that political risk by attracting more support from stakeholders—employers who no longer want to run health-care businesses on the side and insured individuals worried about losing what they have. Also, to realize cost containment, Wyden's state agencies would need to define, which is to say, regulate, qualified plans—a sensible policy that led the insurance industry to oppose a similar idea under a different name when Clinton proposed managed competition in 1993.

Moreover, both of these plans are in their idealized forms. Neither has been through the legislative process, or vetted by a White House, or larded up by special interests, or subjected to attack ads. Hacker's plan would face serious trouble attracting Republican votes. Wyden's plan would require a Democratic president's strong support to attract liberals, and it would have to persuade voters to let go of their present coverage.

Either way, it will be a tough road. But look at the numbers. One way or another, reform must come. We really don't have any choice. TAP

The Primacy of Prevention

Addressing the whole range of behaviors that affect health is the key to a healthier society. That strategy requires a universal system.

BY NEAL HALFON

THE CASE FOR UNIVERSAL HEALTH-insurance coverage is becoming universally acknowledged. To make a real difference in health outcomes, cost, and system performance, we need to cover the whole person, with a full continuum of appropriate care, and ensure continuity over a person's entire life. Anything less will perpetuate inefficiencies and poorly coordinated coverage, which engender fragmented and poor-quality care. But universal coverage alone is not sufficient to reduce the remarkable 35-year difference in life expectancy across different classes of Americans. Universal coverage alone is also not likely to greatly improve the United States' ranking of 46th in life expectancy and 42nd in infant mortality among 192 nations. A high-performing national health-care system must also focus on the prevention of disease and promotion of optimal health for all its citizens.

Effective prevention strategies are not just about routine screening tests provided by doctors in offices or clinics. They are also about methodically addressing the factors that determine health and disease. The inconvenient truth is that many important health determinants—including numerous risky behaviors and social environments that systematically expose people to toxic stress—promote undesirable food choices, limit opportunities to exercise, and usually fail to respond to even the best prevention efforts dispensed by our personal physicians.

Over the past few decades, in particular since our last attempt at national health reform in the early 1990s, important new research has transformed our understanding of what determines health. We know much more about how particular diseases, such as heart disease, evolve over decades and how environmental influences align to channel long-term health outcomes. The policies developed to reform the health-care system, and the ways in which we judge the system's performance over the coming years, should incorporate these paradigmatic shifts in our knowledge about what triggers disease and determines health. Our policies need to encourage innovation in the organization, financing, and delivery of health services that exploit this new knowledge to catalyze genuine improvements in the nation's health.

What our country really needs is "Universal Coverage PLUS"—universal coverage that can also address the social, behavioral, and environmental determinants of health. We need to bring prevention and health promotion from the fringe to the core of the health system. Such an approach would re-engineer the health system to promote the health of individuals over the long periods during which health problems develop. To this end, our specialty-dominated health-care system should be turned on its head, so that a new and more robust form of primary health care can emerge. Moreover, health-care funding needs to expand beyond paying for individual care. We will get much more bang for our health-care buck by making strategic investments that promote the health of specific populations and communities. A sensible place to inaugurate this Universal Care-PLUS approach is with kids. With universal coverage for all Americans as the foundation, additional systemic reforms that transform the way in which we prevent disease and promote optimal health among children and adolescents will be an important down payment on future health returns and serve as an important national pilot for an innovative and necessary new health system that has prevention and health promotion built into the DNA of its basic operating logic.

THE PROMISE AND LIMITATIONS OF UNIVERSAL COVERAGE

The central goal of health-care reform efforts for most of the last century has been universal coverage. If enacted, universal coverage could eventually improve health and decrease health-care cost by bringing everyone into the same system, encouraging ties to a medical home, reducing the use of inappropriate and costly emergency room visits, mitigating the inefficiencies of interrupted care caused by coverage problems, and providing effective preventive interventions like regular mammograms, PAP smears, and other cancer screenings. The international experience shows that universal coverage can ensure access to acute medical care when individuals become ill, chronic disease management for the growing number of people with disabling chronic health conditions, and many preventive services that can avert or postpone the onset of disease.

These same cross-national comparisons, however, strongly suggest that universal coverage alone is not sufficient to achieve our national health and health-care goals. Even countries that have had universal coverage in place for several decades still have significant health disparities associated with the socioeconomic, behavioral, and environmental determinants of health. The now-famous Whitehall studies of British civil servants, for example, revealed how relative social

status has continued to play a major role in the prevalence and impact of a range of chronic diseases from cancer to heart disease, even though the entire British population is fully insured. Civil servants that were higher up the pecking order, had more control over their lives, were more able to use what the system had to offer, and were more sophisticated in optimizing their health.

Similar observations have been made in the United States. Imagining a short ride on the Washington, D.C., Metro as the foil, Sir Michael Marmot, the lead investigator for the Whitehall studies, illustrated the impact of social status on health in the U.S. Each mile traveled on the Metro from the downtown Union Station to the suburbs of Bethesda, Maryland, Marmot showed, is associated with a 1.5-year gain in life expectancy. All told, there is a 20-year divergence in life expectancy between poor blacks at one end of the trip and affluent whites at the other.

Seizing upon the emerging epidemiologic research on the disparate causes of disease, many nations with universal coverage—including Sweden, the United Kingdom, Netherlands, Denmark, and France—are expanding preventive health interventions well beyond just medical care and insurance. These cross-sector policies attempt to coordinate the efforts of multiple government agencies and nongovernmental organizations to create physical and social environments that make it easier for individuals to adopt healthier behaviors. In addition, using tools known as "health impact assessments" these nations are now prospectively evaluating the short- and long-term health effects of proposed major transportation, industrial, and urban policy changes. The new National Institute for Health and Clinical Excellence in the UK is not only monitoring health-care system performance and informing standardized evidence-based medical care—it is actively encouraging major population-based efforts to promote health across the life span.

THE NEW SCIENCE OF HEALTH DEVELOPMENT

The demographic and scientific basis for embracing this enhanced approach to universal coverage is increasingly compelling. Research on chronic disease and the effects of prevention indicates that nearly 60 percent of the chronic disease burden in the U.S. is accounted for by elevated blood pressure, high blood cholesterol, tobacco use, excessive alcohol consumption, low fruit and vegetable intake, and inadequate exercise. Almost four in 10 deaths are attributable to four behaviors that lie at the intersection of the social setting and individual choice: smoking, poor diet, drinking alcohol, and physical inactivity. Studies on the prevention of coronary heart disease (CHD) in the U.S., Finland, and Ireland have documented that 44 percent to 80 percent of the drop in CHD rates is due to systematic declines in major risk factors among the general population, like smoking, cholesterol, and lack of physical activity. Targeting specific high-risk populations with early interventions can also dramatically improve health outcomes. Overweight individuals with impaired glucose tolerance are more likely than others to become diabetic, resulting in devastating consequences for their quality of life and longevity and for the societal costs of medical care. Intensive lifestyle modification (exercise, diet) can reduce this risk of diabetes by 50 percent. In the throes of a national obesity epidemic, with diabetes rates skyrocketing, and given predictable rates of needless disability, premature death, and unsustainable costs, the logic for prevention could not be any more compelling.

Epidemiological investigations over the past 30 years have highlighted the significance of social and behavioral factors, rather than medical care alone, for improvements in life expectancy, onset and impact of disability, and overall health. A recent study by Robert Schoeni and his colleagues at the University of Michigan documents striking declines, between 1982 and 2005, in later-life disability. When these investigators examined the causes for these improvements, medical care had some but limited influence. Rather, half the decline was associated with boosts in educational attainment. Recognizing that formal education is an important prerequisite for optimal health and that educational achievement is in turn heavily shaped by the circumstances encountered during the first eight years of life, several nations have developed new comprehensive strategies to augment the health and welfare of children in their early years.

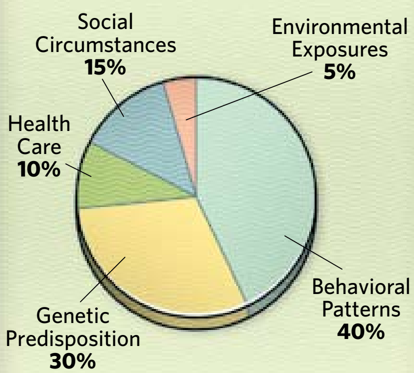
Over the past 15 years, the empirical study of life-course health development has begun to connect exposures and experiences early in life to health and disease trajectories later in life. Confirming what every nurturing grandmother believes intuitively about the benefits of encouraging her grandchildren to exercise regularly and eat their vegetables, a growing body of evidence demonstrates that adult risks for numerous common chronic diseases originate in the initial years of life. Exercise, diet, and behavioral changes adopted both in childhood and adulthood can diminish or postpone heart disease.

In recent years we have also learned that the timing of health threats to individuals can matter greatly. The ramifications of risk exposures tend to be magnified during especially sensitive periods in an individual's development. Research is helping to pinpoint how chaotic social environments, risky family situations, and toxic stress distort the formation of the immune, metabolic, and nervous systems. These changes can set in motion disease pathways early in life. How health trajectories develop, and how small health variations in children often are compounded to yield vast health differences in adults is exemplified by an increasingly common scenario. A child from a low-income family,

Improvements in the natural, social, and built environments, and in diet, exercise, and lifestyle, can profoundly enhance health.

with an overburdened single working parent and living in a dangerous neighborhood, watches a lot of television and exercises infrequently because it is not safe to play outside. He or she becomes overweight. Further, the social isolation and increased screen time breed reduced social competence. Combined with obesity, this diminished social competence produces even lower self esteem. As a teenager this individual has an increased likelihood of poor school performance, getting pregnant (if female), or dropping out, as well as having ongoing weight, social-competence, and other emotional

Contributions to Longevity



SOURCE: *NEW ENGLAND JOURNAL OF MEDICINE*, VOL. 357, NO. 12, S. SCHROEDER (FROM MCGINNIS, ET AL.)

issues. As an adult, this person is not only likely to be overweight, perhaps obese, but also may well develop high blood pressure, diabetes, and heart disease.

Early interventions that reduce risks and strengthen individual capacities can interrupt the chain of preventable events leading to this cascade of poor outcomes. The new information about what factors affect health, and when in the life span they have their impact, challenges the design or "operating logic" of the current health-care system. The existing system focuses primarily on diseases—once symptoms are well established and treatments are costly. The system needs to include a logic of targeting investments and interventions earlier in the evolution and development of diseases. Improvements in the natural, social, and built environments in which individuals live, as well as enhancements in diet, exercise, and lifestyle, can have a profound effect on health trajectories, adult medical needs, and the overall costs of care. Recalibrating our health system to address this undeniable reality will require more than universal coverage.

UNIVERSAL COVERAGE-PLUS: EXPANSIVE PREVENTION

A health-care system with "Universal Coverage PLUS" would have a number of essential attributes, building on models already in place both here and abroad.

Moving Upstream: Preventing obesity, teenage mental-health problems, cardiovascular disease, diabetes, hypertension, and many common expensive medical conditions is not just about screening individuals for early signs that a disease is emerging. It involves identifying and promoting ways for the whole population to live healthier lives. The Kaiser Oakland Medical Center, for instance, reinforces its healthy-eating and weight-reduction programs by sponsoring local farmers' markets at its facilities and nearby communities. Smoking-cessation programs, putting physical education and sports programs back in schools, and creating incentives for individuals to utilize health clubs are all examples of efforts that could yield significant payoffs.

Upgrading & Putting Primary Health Care First: Ensuring effective prevention and health promotion within the health-care system requires strengthening primary health care. International evidence shows that countries with less specialization and well-developed primary health-care systems experience both better health outcomes and much lower costs. The U.S. system needs to make sure that a fully functioning primary health-care home is available to all as part of the covered-benefits package. This would not be your grandfather's primary care, with Marcus Welby diagnosing and treating your medical condition at his dining room table. It would be a robust, dynamic, and responsive primary health-care system. Linked to a multidisciplinary network of well-integrated primary health and wellness centers, it would serve as a point of first contact and provide comprehensive care, ensure continuity of treatment, prevent unnecessary emergency room trips, and serve as the connecting point to community-based prevention, health promotion, and wellness activities. Imagine overweight patients with hypertension whose primary health-care providers can coordinate care plans with their employers' stress-reduction programs and their YMCA's athletic and fitness center's weight control program.

Investing In Prevention, Not Just Paying for Care: Opponents of universal health care make the mistake of arguing that a greater emphasis on wellness, diet, and exercise can substitute for fundamental systemic reforms. But our current health-care system, with its constantly changing array of private health plans and continuous churning of coverage by employers, cannot support making long-term and sustained investments in health promotion. No single purchaser or provider has the incentive to take the long view—from prenatal to late adulthood—and make the necessary linkages and investments. Universal coverage would mitigate some of these problematic incentives, but explicit attention needs to be given to the long-term imperatives of prevention. Moving "upstream" and addressing the lifetime determinants of health, upgrading and improving primary health care, and giving due priority to prevention and health promotion strategies at the population level depends on having a universal-coverage financing system responsive to long-term performance and not just individual episodes of care. Here, too, other nations are taking the lead. Several countries are pooling public and private resources in national or regional "trusts," redirecting some of their patient-care dollars toward population-focused health improvement strategies with long-term timeframes.

STARTING WITH KIDS

A good place to start Universal Coverage-PLUS is with children and adolescents. They are at the most sensitive ages for determining lifelong health. Prevention and early investment are also consistent with recent economic research on human capital investment. A 2007 UNICEF report that compared the health and well-being of children and youths in 21 Organization

for Economic Cooperation and Development nations placed the U.S. at the bottom or near the bottom on all measures. Most of the top-ranking nations in the report recognize that child health, education, and social welfare are inextricably linked, and that poor health begets poor education, which begets even poorer health. As with adults, the epidemiology of childhood is changing. Over the past century, childhood death and illness rates due to traditional medical conditions, such as infectious disease, have fallen dramatically, but differences in health between the best-off and worst-off children are escalating, the population of children with chronic conditions is swelling, and a growing number of children have mental, behavioral, and developmental problems. Effective intervention strategies, however, are already in the offing.

Child health, education, and social welfare are closely linked. Poor health begets poor education, which begets poorer health.

What might we learn from other countries as we build Universal Coverage-PLUS for kids? Until recently, child poverty rates, and other indicators of health and well-being, were quite comparable in Britain and the U.S. The respective percentages of children from immigrant families are also comparable. However, Britain has recently made impressive gains. The reforms in Britain's services for young children have their origins in the Black Report, a study conducted in the 1970s to determine why health inequalities persisted despite 30 years of the National Health Service. The report's recommendations underscored the importance of improving the material living conditions of the poorest groups, especially children. Largely ignored during the Thatcher years, the report's theme was seized by New Labour, when Tony Blair and Gordon Brown arrived on Downing Street in 1997 with an ambitious commitment to end child poverty in 20 years.

Several major policy reforms—including Every Child Matters (2003), The Children's Act (2004), and the National Service Framework for Children, Young People, and Maternity Services—laid the ground for integrating services for children into transformed universal systems of care. The reforms overcame the last vestiges of the "Elizabethan Poor Laws" mentality, offering high-quality services for all children without waiting for them or their families to fail. "Sure Start" is for the youngest children. Established originally in some of England's poorest areas, the program delivers integrated family support, health promotion, and early learning and play experiences for children under the age of 4. Each Sure Start area is relatively small, targeting around 800 children. Begun with 250 programs, Sure Start now has 2,500 centers with plans underway for the completion of 3,500 centers by 2010. Encouraged by the program's success, the Department for Children, School and Families recently declared that its intent is "to make this country the best place in the world for children and young people to grow up." But make no mistake—this enhanced approach can work in large part because it is anchored in a lifelong universal system.

What should the United States do? We, too, should set national objectives for children's health and well-being with the goal of making U.S. children the healthiest in the world. That aspiration would require that all children have robust health-care coverage. Unlike most existing health insurance that covers children from the neck down, this coverage would address mental, developmental, behavioral, and dental conditions and risks. It would go beyond individual diagnostic, treatment, and rehabilitation services to emphasize prevention, early intervention, and general childhood health promotion services as well. Because some of the most effective prevention services children can receive are conferred in family, child-care, and school settings, Universal Coverage-PLUS would cover and encourage services in non-medical settings and promote information exchange among service providers.

Expanding coverage to all children should be linked with other reforms to bring the entire child health system into the 21st century. We need to launch our own version of England's Sure Start, putting in place a national 0-to-8 initiative designed to upgrade and link pediatric primary care, child care, and preschools, and other supports for families with young children. Using new information technology, we could transform what has been a fragmented array of spotty services and supports into a high-performing early childhood health system. To ensure performance and to measure health outcomes, we would institute a national monitoring system, which would augment and integrate the fragmented array of existing data collection approaches. These upgrades and improvement would also require the consolidation and integration of many categorical health programs, spanning several federal departments and agencies. New incentives would also be necessary to stimulate innovations in the planning, coordination, and collaborative delivery of services at the state and local levels.

Starting with children, Coverage-PLUS could function as a national pilot project for the entire population. Improvements in health-care outcomes for kids would demonstrate the gains to be obtained from a more inclusive and transformational approach to health system design. The policy and institutional mechanisms developed to achieve these health enhancements would provide invaluable information for subsequent investments in prevention and population health, and the design of effective primary health-care systems—and make the case for universal coverage irrefutable. After all, healthy kids eventually become healthy adults. TAP

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What Really Ails Medicare

The cost crisis of Medicare gets a lot of attention. The program can be fixed only by universalizing the larger health system in which Medicare resides.

BY JONATHAN COHN

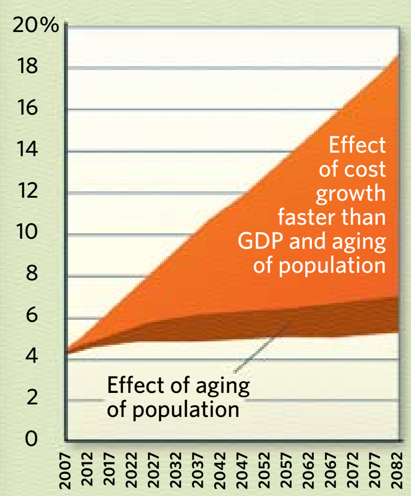
WHEN LYNDON JOHNSON SIGNED the law creating Medicare in 1965, he promised that it would transform the lives of America's senior citizens. "No longer will older Americans be denied the healing miracle of modern medicine," Johnson proclaimed. "No longer will illness crush and destroy the savings that they have so carefully put away over a lifetime so that they might enjoy dignity in their later years." As ambitious as those goals were, some of Medicare's architects had even loftier hopes. Many were veterans of Harry Truman's crusade to provide insurance to every single American; it was only after that effort failed that they decided to concentrate on covering the elderly, whom they knew to be a politically sympathetic group. But in focusing on senior citizens, they didn't give up on bringing insurance to the rest of the country. Medicare, they fervently hoped, would be a stepping stone to universal coverage—and perhaps a model for how to achieve it.

More than 40 years later, universal health care is back on the political agenda. But hardly anyone with actual political power is talking about quickly achieving universal coverage with a Medicare-like program to cover everybody. And while some progressives hope to establish a new public program that could eventually cover everybody—an idea endorsed by all the leading Democratic candidates for president—they haven't made this element a prime selling point. Instead, Medicare is just as likely to be invoked by the opponents of universal coverage. As far as they are concerned, Medicare is proof that universal coverage can't work.

Medicare, according to this line of thinking, is a bloated, inefficient program—one destined to bankrupt the country within a few decades. And it's true: The program's financial situation really does appear dire. According to the most recent official projections, in 2011 the trust fund that pays for hospital benefits will spend more money than it takes in; eight years later, it will run out of money altogether. In the meantime, the Congressional Budget Office predicts, Medicare as a whole will gobble up an ever-increasing share of both the federal budget and our national wealth—until, by 2080, it's taking up more than 15 percent of gross domestic product. As a stopgap, Congress has tried various Medicare cuts. But those cuts frequently translate into reduced payments to doctors, hospitals, and medical schools, and trickle down to individual beneficiaries in the form of higher premiums for physician services and cost-sharing. That means seniors who use the most medical services—those who need the most help—keep spending a larger share of their incomes on medical care.

Don't Blame Longevity

Sources of growth in projected federal spending on Medicare and Medicaid, 2007–2082, as a percentage of GDP



SOURCE: CONGRESSIONAL BUDGET OFFICE

Medicare's financing crisis is real enough. But it does not logically follow that universal health insurance should wait. On the contrary, Medicare costs a lot because medical care in this country costs a lot. The program is trapped in a deeply dysfunctional system—one in which too much money goes to the wrong uses and not enough goes to the right ones. Unless we want to simply hack away at the program's benefits—in effect, undoing one of the greatest social-policy advances in American history—the best way to stabilize Medicare is to think even bigger and fix the rest of the health-care system. The founders had it right: Medicare should be the foundation for reform, not an impediment to it.

NOTWITHSTANDING THE FISCAL PROJECTIONS that make the evening newscasts, Medicare has been wildly successful. It delivered on LBJ's promise to bring the elderly into the mainstream of American medicine, virtually eliminating severe economic hardship as a consequence of the costs of illness among elderly. The program is also hugely popular with the people who use it. Polls have shown that, relative to working families with private insurance, the elderly on Medicare are more satisfied with their coverage. And why wouldn't they be? The program covers virtually any service they might need. It's available to everybody 65 years or older, regardless of pre-existing condi-

tions. And nobody can take the coverage away. This universality also explains the program's efficiency—no money wasted on marketing or on middlemen profits.

Still, Medicare was a product of political compromises, some of which raised costs. In order to blunt opposition from organized medicine, health-care reform's most traditional foe, Medicare's promoters promised doctors that they could continue to charge their "usual and customary" fees. To win support from hospitals, which were struggling to cope with impoverished elderly patients but remained wary of too much government interference, Medicare promoters allowed Blue Cross to administer the actual payments, further inflating costs. (Nobody expected Blue Cross to scrutinize hospital billing too heavily.) All too predictably, Medicare's expenses skyrocketed.

Eventually, the government increased the program's bargaining leverage with doctors and hospitals. In 1983, Congress changed the way Medicare paid hospitals, providing reimbursements based on diagnoses, in the hope that hospitals would be rewarded for providing the most cost-effective treatments. In 1989, the system implemented an explicit fee schedule that effectively set the prices doctors could charge their Medicare patients.

THANKS TO THE COST-CONTAINMENT efforts, Medicare has actually managed to hold down its costs as well as, if not slightly better than, private insurance. But the program's victory over skyrocketing costs was far from complete. When Medicare reduced its payments to the providers of medical services, the providers turned around and charged more to other payers of premiums, whether insurance companies, employers, or individuals. This is known as "cost shifting." The net shift is impossible to know, because doctors and hospitals try to shift some costs back onto Medicare as other sources of revenue diminish.

As a long-term strategy, however, simply cutting fees across the board tends to have diminishing returns. Service for service, procedure for procedure, Medicare already pays less than most private insurers. Every time a new cut looms, many doctors threaten to stop seeing some or all Medicare patients. That hasn't actually happened yet, according to the Center for Studying Health System Change, perhaps because few doctors can afford to shun such a large group of paying patients. Another reason could be that Medicare, although not the most generous financier of medical care, is one of the quickest. But at some point, cutting fees must restrict access. The proof can be found in Medicare's impoverished sister, Medicaid, which was created by the same 1965 law establishing Medicare. Because Medicaid pays so little—less even than Medicare—Medicaid patients frequently have trouble finding doctors who will see them, at least on a timely basis.

So Medicare has now reached the limits of cutting payments as a cost-containment strategy, unless Congress is willing to gut the program. Something that goes beyond past payment reforms is required to avoid the fiscal disaster that the Congressional Budget Office, the Medicare Trustees, and a chorus of fiscal critics project in the near future. But what kind of changes would that entail? That's where the great ideological divide opens up.

The more that conservatives try to make Medicare like the rest of the health-care system, the more inefficient it becomes.

FOR DECADES, CONSERVATIVES HAVE BEEN saying that the solution to Medicare's problems lies in making Medicare operate more like the commercial health-insurance market: Have more seniors get their insurance from private carriers rather than from the government and, no less important, encourage them to choose plans with less generous benefits. These steps, they promise, will help control the growth of Medicare spending.

At a time when the public's faith in government is less than what it was when Medicare first came into existence, this sort of thinking has political appeal. But recent history offers a real-life test of this proposition—and it turns out to be pretty shaky.

In the 1990s, prodded by the insurance industry, Medicare introduced more private insurance options through an initiative called "Medicare plus choice." By that point, private managed care plans had shown themselves capable of holding down medical costs for the working-age population by bargaining harder on prices, limiting payments to physicians, scrutinizing medical treatments, and shifting some out-of-pocket costs to consumers. Medicare-plus-choice sought to make the same sorts of managed care plans available to seniors, as an alternative to the traditional government program, in the hopes it would have a similarly salutary effect.

For a little while, the experiment seemed to work. The plans, some of which offered hard-to-get prescription drug benefits, proved affordable and popular. But soon it turned out the plans were offering more benefits largely because the government was paying them too much money. And their key to profitability was skimming off relatively healthy seniors with selective marketing. When the government cut back on the unnecessary subsidies, plans started dropping out—creating chaos and leaving recipients scrambling for replacement coverage. It turned out that, given a population of beneficiaries overwhelmingly likely to get sick, private carriers couldn't perform as well as they could with the relatively healthier working-age population.

It was a sobering lesson, but one that President Bush and the Republican Congress chose to ignore a few years later. Under intense political pressure to create that much-needed prescription-drug benefit, Bush and his allies (including some Democrats) complied—but the twist was that the coverage would come only through private plans, which the government would be subsidizing. The result? Even more overpayments, making the program far more costly than

the obvious alternative—the addition of a drug benefit to conventional, public Medicare. For example, every time a senior citizen opts out of traditional Medicare and enrolls in one of the new "Medicare Advantage" plans (which offer not just drug coverage but a full-blown private alternative to regular Medicare), the federal government has to spend 12 percent more than it would have if the patient had stayed on Medicare.

Although the idea that private insurance might actually cost *more* than public insurance confounds conservative wisdom, this reality is hardly surprising, given the economics of heath insurance. Government statistics show that around 98 percent of the money flowing into the traditional Medicare program goes back out as payment for medical services and goods. The comparable figure for private insurance companies—a figure the companies call the "medical-loss ratio," since they consider money spent on patients a "loss"—rarely goes above 90 percent and, for the bigger commercial carriers, frequently dips down into the 70 percent range and even the high 60 percent range. It's not hard to see why this would be. Commercial carriers answer to Wall Street, which demands profits. As such, they spend lavish sums on marketing—and figuring out new ways to target the healthiest (i.e., the cheapest to insure) beneficiaries. Medicare does none of these things.

Forcing seniors to bear more costs directly—the other idea conservatives love to talk up—might seem like a more promising strategy for containing Medicare spending. Studies have repeatedly shown that people consume fewer medical services when they have to pay more for them. And that's why any sensible insurance program, private or public, asks its beneficiaries to pay for at least some portion of their medical bills out of pocket.

Time for a Sequel? LBJ selects a pen to sign the 1965 Medicare bill, with Harry Truman approving.

AP IMAGES

But the higher that cost-sharing goes, the more perilous it becomes. Even putting aside the moral issue—shouldn't an insurance system protect sicker people?—it's not clear that hiking out-of-pocket spending actually saves money in the long run, since even relatively intelligent and informed people have a hard time figuring out how to buy medical care wisely. Several recent studies, including one published in *The New England Journal of Medicine*, looked specifically at the impact of raising drug co-payments for seniors taking medication for chronic conditions. The short-term effect was that seniors spent less money on drugs (good). The long-term effect was that seniors got a lot sicker, requiring more hospitalizations—which quite possibly cost even more money than the foregone drugs would have (not good).

BUT IF PRIVATIZING AND PRUNING MEDIcare won't save the program from financial turmoil, what will? The answer lies in understanding the real reason why Medicare costs keep going up. Surprisingly, the prime cause is *not* the aging of the population. If aging were the only factor driving up Medicare costs, the Congressional Budget Office predicts that the program would grow from a little less than 3 percent of gross domestic product today to a little less than 5 percent in 2080. That's serious money but a relatively small portion of the projected overall cost increase.

The real reason Medicare is expected to grow so fast is that all medical spending, for both the elderly and non-elderly, is going up. The reason for that is a combination of newly available technology and an unchecked demand to use it. And this is where Medicare's real problem—and that of the whole system—comes into view.

Historically, Medicare, like private insurers, has rewarded doctors and hospitals for performing more procedures. (While the payment reforms of the 1980s, so called "diagnosis related groups," helped mitigate that problem, they didn't eliminate it.) But patients don't actually seem to be better off for the extra attention. The proof of this lies in the now-famous work of John Wennberg and his colleagues at Dartmouth Medical School. As they and their disciples have repeatedly demonstrated, Medicare currently underwrites vastly different levels of care in different parts of the country. Seniors in South Florida, for example, get a lot more medical care than seniors in Minneapolis—apparently because South Florida has a great many more doctors (who often overtreat their patients). But statistically, South Florida seniors don't seem better off for the extra care. That means Medicare must be paying for a lot of unnecessary or counterproductive treatments.

That's why reducing unnecessary care (as opposed to simply reducing care, which is what crude increases in cost-sharing would do) is the first key to Medicare's financial survival—and the efficiency of the health system gener-

ally. Medicare could, for example, offer financial incentives to providers that follow established best practices. Medicare could also reward those that make information about its practices and outcomes publicly available. The incentives to do this can be positive, in the form of bonuses, or negative, in the form of penalties. Medicare might also encourage seniors to enroll in integrated practice settings, like the highly regarded Group Health of Puget Sound, which have been shown time and again to offer some of the most cost-effective—and, by most measures, the best—medical care available. This is not the same as simply herding seniors into loosely organized managed care systems, only some of which actually integrate care and emphasize prevention the way places like Group Health do.

Although these sorts of initiatives worry some doctors and hospital lobbyists, who fear the government will get too involved in micromanaging care, the idea actually enjoys bipartisan support in Washington. For all of the damage the Bush administration has done to Medicare through the design of its prescription-drug benefit, it has made steady progress toward introducing payment reforms, which many experts call "pay for performance." (Mark McLellan, former secretary of health and human services, deserves much of the credit.) Presumptive Republican presidential nominee John McCain, although an opponent of universal health insurance, has nevertheless included similar reform proposals in his campaign platform, as have both Hillary Clinton and Barack Obama. Yet because of the overall system's fragmentation, its commercialization, and perverse incentives to spend money in the wrong places, these reforms would be far more potent in the context of a truly universal system.

ANOTHER KEY PAYMENT REFORM IS FAR more controversial: changing the way Medicare buys prescription drugs. One reason Bush and his supporters were so determined to channel the new drug benefit through private insurers was that they didn't want to give government the kind of pricing leverage over the pharmaceutical industry that it already has over doctors and hospitals. And while the opposition to government drug purchasing has more than a little to do with the drug industry's history of campaign contributions to Republicans, it also reflects a philosophical conviction that government pricing would deter innovation.

It's a respectable argument but, again, not one supported by much evidence, because the current system isn't particularly well suited to fostering innovation in the first place. The driving force behind developing new drugs isn't a push for the best new treatments science can concoct. It's a push for the best new products that the pharmaceutical industry can market to gullible consumers and compliant doctors, often trivial variations on existing drugs about to go off-patent. It's undoubtedly true that too much government pressure on drug prices, particularly if applied arbitrarily, could deter useful innovations. But most sensible reformers don't advocate that.

In the absence of universal reforms, cost-containment efforts only promote cost-shifting to other parts of the system.

Rather, they call for linking drug purchasing to more aggressive judgments on which drugs work—and which drugs are most cost-effective.

But here again, there are limits to what any Medicare reform can accomplish, if limited to Medicare's part of the system. Medicare is already the largest purchaser of medical services in the United States. But the fragmentation of the system greatly diminishes Medicare's ability to change the way medicine is practiced—and, in so doing, blunts its ability to control costs. Fragmentation also leads to the cost-shifting problem. When Medicare squeezes—whether intelligently or crudely—the providers of medical care react by increasing charges to their other customers, like working-age people covered by private insurers. And what happens when doctors and hospitals can't simply charge more to make up for declining Medicare payments? If they don't simply decide to see fewer Medicare patients, they might decide instead to provide less discounted and free care to the uninsured. That's a form of cost-shifting, too, only the "cost" comes in the form of higher medical debt—or unmet medical needs—for people who find themselves without adequate insurance.

All of this suggests why true Medicare reform would go far beyond Medicare. It would fix the whole health-care system by creating incentives for all providers of medical care to observe cost-effective medical practices. It would create new scientific institutions (or redirect existing ones) to establish what those best practices are. It would create some sort of electronic medical record system, to cut down on errors and improve coordination of care—both of which ought to help reduce costs (not to mention make people healthier). Above all, it would also make sure all patients had a way to pay their bills, so that doctors and hospitals now performing charity care won't have to steal from other funding sources to do it.

In other words, the best way to keep Medicare affordable would be to create a well-functioning universal system. The idea of fixing a program by creating another, even larger one might sound paradoxical. But that's only a function of today's political sensibilities. The argument would make perfect sense to many of Medicare's founders; indeed, it would be true to their original hope that Medicare would open the door to covering everybody. Sometimes, the first impulse is the right one. TAP

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Health Reform You Shouldn't Believe In

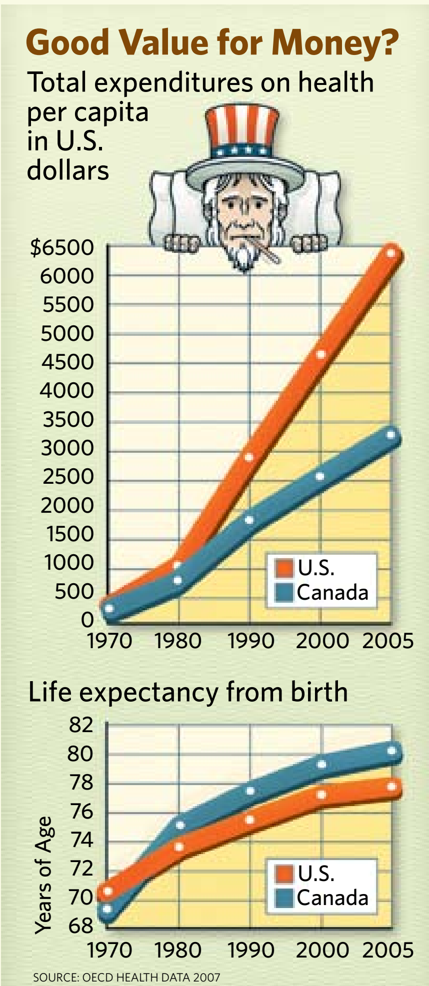
What the Massachusetts experiment teaches us about incremental efforts to increase coverage by expanding private insurance.

BY MARCIA ANGELL

FOR ALL THEIR PROMISE OF CHANGE, Democrats are remarkably timid about changing the health-care system. The system now costs twice as much per person as those of other advanced countries and delivers worse average outcomes. It prices tens of millions of people out of health coverage altogether and limits care for countless others. Yet leading Democrats are clinging to this system, proposing to cover more people but not changing the system itself except at the margins. The timidity extends to choice of words. No one is supposed to say "single-payer" or "national health insurance" anymore, because that is "politically unrealistic"; the most we are allowed is to talk of reforming the system incrementally so that someday it will morph into "Medicare for all."

Thus, the proposals for reform taken most seriously by Democrats—including Barack Obama and Hillary Clinton—would retain the central role of the investor-owned private insurance industry as well as the thousands of for-profit businesses it pays to deliver medical services. This is the industry, mind you, that has brought us to the predicament we're in now, so let's take a quick look at it.

The U.S. health system is unique in treating health care as a commodity to be bought and sold in a marketplace. Care is distributed according to the ability to pay, not according to medical need. Private insurers compete by avoiding high-risk individuals, limiting services for those they do cover, and, whenever possible, shifting costs to other payers or to patients in the form of high deductibles and co-payments. We have the only health system in the world based on avoiding sick people. It's a chaotic and fragmented system that requires mountains of paperwork, which is one reason premiums are so high. Employers who offer health benefits react by capping their contributions, so that workers pay more out of pocket and bear the full brunt of premium increases.



Insurers contract with hospitals, HMOs, and other health facilities to provide the care. They, too, are often for-profit businesses that promote lucrative services for well-insured patients (such as coronary catheterization for Medicare recipients), while giving short shrift to less profitable ones (such as psychiatric services for the indigent). To compete in a market environment, even not-for-profit facilities behave in much the same way as for-profit ones. Doctors often act as entrepreneurs, investing in health facilities to which they refer patients. And because they are usually paid on a fee-for-service basis, they have a strong incentive to overuse tests and procedures that have the greatest profit margins.

All of this drives up costs to the overall system, while yielding profits for the various players within it. In fact, there's a fundamental illogic to trying to contain costs in a market-based system. Markets are about expanding, not contracting. Like all businesses, hospitals want more, not fewer customers—but only as long as they can pay. Conventional wisdom holds that we need to retain this system because many Americans are satisfied with it. But except for industry spokespeople and politicians whose campaigns they support, I've never met anyone who actually is. Many people like their doctors, but that is not the same as liking the system.

The reforms favored by leading Democrats vary somewhat, but all have at their heart expanding insurance coverage through public subsidies for those who can't afford the premiums or, alternatively, permitting those without access to good, affordable insurance to enroll in a

new Medicare-type program that would be set up to provide them with coverage. Some reform proposals include a mandate requiring everyone to be insured.

Many proponents hope that a parallel Medicare-like system would eventually crowd out its less efficient private competitors, that under a play-or-pay requirement, employers would gradually decide to stop providing coverage and just pay into the common pool. However, this wishful thinking overlooks the power of the private health industry, through its huge lobby, to influence the rules so that it continues to profit while the public system is undermined.

All of these variations in the Democrats' plans run into this intractable dilemma: If the system stays essentially as it is and we try to expand coverage, costs will inevitably rise. On the other hand, attempts to control costs will inevitably reduce coverage. Without fundamental reform, coverage and costs have to move in the same direction. Yet, we don't have the option of expanding both coverage and costs. At 16 percent of gross domestic product, our health-care system is already unaffordable. In fact, costs are the central problem; universal health care would be easy if money were no object. Furthermore, none of the proposed reforms offers any workable mechanism for controlling the unsustainable inflation in health costs. Attempts to regulate private insurers to prevent the worst abuses would probably do little more than add to the complexity and administrative costs of the system.

The proposed reforms also make the fundamental mistake of confusing *insurance* with *health care*. As many Americans are learning, the two are not the same—not by a long shot. Health insurance can easily be too skimpy or too laden with exceptions and co-charges to be of much use. What people really want when they're sick is medical care, not medical insurance, just as they want education for their children, not the opportunity to buy education insurance.

Despite the Democrats' coalescence around the same approach for achieving universal care, only one such plan has been implemented—the Massachusetts health-reform plan. It is therefore worth looking at in some detail.

The proposed reforms mistakenly confuse health *insurance* with health *care*.

MASSACHUSETTS MIRACLE OR MIRAGE?

This plan, which was enacted in April 2006 amid extraordinary hoopla, set out to cover the 500,000 to 750,000 uninsured residents of the state, and to see that the coverage for everyone else met a minimum standard. To that end, the state would purchase insurance for everyone with incomes beneath the federal poverty level, and partially subsidize it for those earning up to three times the poverty level (which now comes to $31,200 per year for an individual). Everyone else—roughly 200,000 to 250,000 people—would have to purchase his or her own insurance or face stiff fines. The legislation established a new state agency, the Commonwealth Health Insurance Connector, which would try to make sure insurance was affordable and met the minimum standard and which would also determine the level of subsidies.

Financing the plan was iffy from the outset. When fully implemented, it was projected to cost the state only $125 million in new money the first year—not very much in a state with a $26 billion budget. Mostly it would be financed by diverting existing funds from two sources: Medicaid, under a two-year waiver that would permit federal money to be used for this purpose, and the state's generous "free care pool," which was established to provide direct services to uninsured patients in safety-net facilities and is supported by assessments on hospitals and insurers. There would also be a paltry fine on employers who didn't offer insurance, but no one thought that would be an important source of funding. Success would depend crucially on the individual mandate requiring those with incomes more than three times the poverty level to pay for their own insurance.

What's happened since then? While those beneath the poverty level signed up for free insurance in even greater numbers than anticipated, very few people who were required to pay for their own insurance signed up. Even those eligible for partial subsidies were slow to enroll. The deadline to purchase insurance had to be extended, and 60,000 uninsured people were exempted from the mandate because—yes, that's right—they couldn't afford it (so much for universality). The state modified its requirement that all insurance meet a minimum standard. Jon Kingsdale, the executive director of the Commonwealth Health Insurance Connector, told me that was because the federal Employee Retirement Income Security Act prohibits states from setting standards when employers act as their own insurers (didn't the Massachusetts legislators know that when they crafted the law?), but he said that next year workers will be responsible for somehow upgrading their own policies, or (you guessed it) be fined.

Don't get me wrong. Massachusetts is to be congratulated for seeking to extend health care to everyone in the state. Every decent society should ensure health care, just as it does education, clean water, and police and fire protection. Massachusetts' plan is an ambitious and well-intentioned effort. But unfortunately, it's extremely unlikely to work for three main reasons.

First, the individual mandate is harsh, regressive, and probably unenforceable. It requires the near-poor to pay a much higher percentage of their income on health care than their more affluent neighbors. Although insurers are prohibited from charging more for people with medical conditions, older people have to pay more. The premiums for a 57-year-old are twice as much as for a 27-year-old. According to the Connector's Web site in March of this year, the least expensive plan for a 57-year-old had a premium of $4,700 per year, a $2,000 deductible, and substantial co-pays and co-insurance up to $4,000 per year. (That cap did not include prescription drugs.)

So a hypothetical 57-year-old with a $32,000 annual income (just over three times the poverty level) could pay as much as $8,700 out of pocket—or over a quarter of his income. Family plans are, of course, different, but the effect is the same. Next year, those who haven't purchased insurance will be fined half the premium of the lowest-priced plan. Truly this is the Squeeze Blood from a Turnip Plan.

It also lets employers off the hook. They're supposed to pay a $295 per employee fine if they don't provide health benefits, but they're now considered to have met their obligation if they offer benefits to just 25 percent of their employees or contribute 33 percent of the premiums—no matter whether employees accept the offer and no matter how skimpy the coverage. And a $295 fine is no incentive to provide insurance that costs upward of $5,000. So the growing problem of underinsurance will be left to workers themselves to solve.

Second, like all such plans, the Massachusetts strategy pretends that having insurance is the same as having health care. The Connector makes much of the fact that some 300,000 people who were previously uninsured now have insurance, but most of those already had access to health care, either through the free-care pool or Medicaid. So it's something of a shell game, with money that would have been spent directly on health care passed through insurance companies instead (which keep quite a lot of it).

The Connector offers a choice of insurance plans from four different companies for those eligible for state subsidies (called Commonwealth Care), and from six companies for those who have to purchase their own (Commonwealth Choice). There is a trade-off between premiums, on the one hand, and deductibles and other out-of-pocket costs, on the other. The plans with the lowest premiums have the highest deductibles and other costs. But those who select the cheapest plans are likely to be precisely those least able to afford high out-of-pocket costs. So they could end up with health insurance that they can't afford to use but have to pay for anyway. The speaker of the Massachusetts House of Representatives, Salvatore DiMasi, one of the prime movers behind the plan, wasn't worried. He told *The Boston Globe* last year, "We're moving to universal insurance and then toward insurance that has substantial benefits. That's the key." Can he really believe that after people have signed up for stripped-down coverage, and costs have continued to climb, there will be the money and political will to add to the benefit package?

Third and most important, there is no effective mechanism for containing costs. Insurance companies can set premiums as high as they like. If they're much higher than the competition, of course, the Connector can choose not to offer those plans. But if all the companies raise their premiums at about the same rate, there's not much the agency can do. And sure enough, premiums have continued to rise faster than the background inflation rate (10 percent for Commonwealth Care next year). The only way to hold them in check is to cut benefits or increase deductibles and co-payments. (The Connector actually favors increasing co-payments to prevent Commonwealth Care from becoming so attractive that employers will drop coverage and send workers to the state plan.) Insurance will quickly become too expensive, as well as increasingly inadequate. The state, which now faces a $1.2 billion budget shortfall and health costs of $147 million more than projected, will not be able to contribute much more from general revenues. Funding depends utterly on the Medicaid waiver being renewed in July, by no means a sure thing.

That Was Then: Former Gov. Mitt Romney embraces a bigger role for government.

CHITOSE SUZUKI / AP IMAGES

THE VERDICT: SINGLE-PAYER

Massachusetts is not the first state to come up with a plan to provide near-universal health insurance to its residents, although it is the first to rely on an individual mandate. Maine tried it in 2003, Minnesota and Tennessee in 1992, to name a few. And Massachusetts made an earlier attempt in 1988. All were greeted with great enthusiasm and fanfare in the media. And all failed and died with scarcely a whimper. More recently, California, inspired by Massachusetts, tried to pass similar legislation. Despite Gov. Schwarzenegger's support, it died in the state Senate in January. It didn't have resources anywhere near comparable to those in Massachusetts, mainly the Medicaid funds and free-care pool, and had to rely more on employer contributions. What all the state efforts have had in common is that they left our current dysfunctional sys-

tem essentially intact and simply tried to expand it around the edges.

The only workable solution is a single-payer system (there, I said it), in which everyone is provided with whatever care he or she needs regardless of age and medical condition. There would no longer be a private insurance industry, which adds little of value yet skims a substantial fraction of the health-care dollar right off the top. Employers, too, would no longer be involved in health care. Care would be provided in nonprofit facilities. The most progressive way to fund such a system would be through an earmarked income tax, which would be more than offset by eliminating premiums and out-of-pocket expenses.

This is not the same as Medicare for all. Medicare is embedded in our market-based entrepreneurial private system, and therefore experiences many of the same inflationary forces, including having to deal with profit-maximizing hospitals and physicians' groups. Doctors' fees are skewed to reward highly paid specialists for doing as many expensive tests and procedures as possible. As a result, Medicare inflation is almost as high as inflation in the private sector and similarly unsustainable.

In addition, Medicare is not what it once was. For the past eight years, it has been at the mercy of an administration intent on dismantling and privatizing it. The prescription-drug benefit enacted in 2003 is an example. It's a bonanza for the pharmaceutical industry because it forbids Medicare from using its purchasing power to get good prices. Medicare recipients have also been encouraged to enroll in private health plans, which are paid on average 12 percent more than it would cost traditional Medicare to care for the same people. Even as public funds are siphoned off to the private sector, premiums and co-payments have been increased, and there are now proposals for means testing—a superficially attractive idea but ultimately a grave threat to any public program.

Over the years there have been many independent analyses of the costs of converting to a single-payer system, either within a state or nationally. They include studies by the General Accounting Office, the Congressional Budget Office, and consulting firms, such as the Lewin group, hired by state governments and, in Massachusetts, the state medical society. Most found that a single-payer system would initially cost roughly the same as the system it replaced, while providing universal coverage, and over time would be much cheaper.

Polls have shown that most people, and most Massachusetts doctors, favor a single-payer system. *The Boston Globe* called for a national single-payer system last May. In an editorial about the big three automakers' desire to transfer health costs to the autoworkers' union, the *Globe* said, "It would make more sense for the federal government to oversee a national health system financed from taxes. The cost could be spread across the entire population, rather than borne by Chrysler or other companies that no longer enjoy the assured profitability of their best years."

Nevertheless, the private insurance industry has managed to convince many political leaders, including progressives, that a single-payer system is unrealistic. But what is truly unrealistic is anything else. My greatest concern about the Massachusetts plan is that when it unravels, people will draw the wrong lesson. They will assume that universal care at a cost we can afford is impossible, and give up on it. It's not impossible; it's just unlikely to be achievable while leaving our dysfunctional system in place. Can we make it right? I'm tempted to say, "Yes, we can." **TAP**

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Why Not Connecticut?

A model grass-roots organizing campaign mobilizes public opinion for universal coverage—in a state long dominated by private insurers.

BY MARC CAPLAN

CONNECTICUT—STILL KNOWN AS THE insurance capital of the United States even with takeovers and significant layoffs in the industry—might be the last state conventional wisdom would expect to break new ground in the fight for universal health care. But it could well happen. Strong advocates and legislative proponents, significant business support for real change, and an innovative health-care foundation implementing a well-funded broad-based organizing campaign are positioning Connecticut to provide national leadership on the issue.

Connecticut's legislature has strong advocates for universal coverage in its top leadership, including state House Majority Leader Christopher Donovan and state Senate President Donald Williams. The 2007 legislative session expanded Connecticut's HUSKY health-insurance program for uninsured children and their low-income parents, and increased funding for community- and school-based clinics. But for the long term, the most important action—led by Donovan and Williams—was to create two state authorities that are charged with, in Williams' words, "moving our state toward universal health-care coverage."

The more important of the two, the HealthFirst Connecticut Authority, has the responsibility to provide the legislature by Dec. 1 with recommendations to achieve and pay for universal health care. The other authority, the State-Wide Primary Care Access Authority, is charged with developing a proposal for a universal primary health-care system by the end of this year and then producing a plan

to implement the system by July 2010.

Signaling the activist direction the legislative leadership hopes these authorities will take, Tom Swan, the director of the Connecticut Citizen Action Group and probably the state's most visible proponent of a single-payer system, was appointed co-chair by state House Speaker James Amann, along with Margaret Flinter, former president of the Connecticut Nurses Association who helps run a network of health clinics. Not surprisingly, these and other appointments of people who appear sympathetic to ambitious universal plans have raised the hackles of the state's largest business lobbying organization, the Connecticut Business and Industry Association (CBIA).

However, other business groups, feeling the pinch of health-care costs, are surprisingly supportive. Kate Gervais, who has been organizing a small business health-care network, says there are "hundreds, if not thousands, of small and medium-size businesses are ready for reform," though she notes that there is a "deep-seated lack of trust in government, and many don't believe anything will ever change." As Christopher Bruhl, president and CEO of the Business Council of Fairfield County, says: "The current situation is untenable and the business community knows it. Broad reform of the health-care system, starting with a focus on wellness and condition management, is the only way to bring affordability, access, and equity in health-care to businesses and their employees." However, the two 600—maybe 6,000—pound gorillas of Connecticut's business community, the insurance industry and CBIA, remain deeply skeptical of the need for a comprehensive universal system.

Everyone Into The (State) Pool: Leader Donovan's new health-care plan

BOB CHILD / AP IMAGES

Can we restore the notion that a government program will really improve people's lives?

A test of the willingness of the legislature to move toward any universal health-care plan is the *Connecticut Health Care Partnership*, a proposal by state Majority Leader Donovan, which would allow municipalities, small businesses, and nonprofits to opt in to the state employee health-insurance plan purchasing pool, the state's largest health-care purchasing pool, leading to increased bargaining power and lower administrative costs. Donovan has held meetings in 22 towns and claims many cities are expected to save over $1 million each year. "It's especially attractive because everyone will know they have the 'same health coverage as the governor.'" On the other hand, Eric George, CBIA's associate counsel, says: "We have serious concerns. The bill doesn't insure one new person. It is the first step down a path towards a single-payer system."

Last, but not least, is the new engine driving health-care reform in the state. Until recently, the primary group leading the effort was Health Care for All, a coalition of consumer, labor, and community groups. Organized in 1988 by the Connecticut Citizen Action Group (CCAG), it won important victories over the past two decades. But that effort, like those in many states, never had the necessary participation and buy-in from a broad enough set of stakeholders. And, operating hand-to-mouth, the coalition lacked the capacity to pass universal health care.

But the equation changed with the emergence of the Universal Health Care Foundation of Connecticut as a major player. Formerly the Anthem Foundation, Universal was founded in 1999 as one of more than 165 foundations created by "conversions" of nonprofit health corporations to for-profit entities. As a condition of these conversions, the law requires that the assets of the nonprofit be retained for some public purpose, and not just transferred to the new for-profit entity. A new proliferation of health-care foundations is the result.

Led by Juan Figueroa, a former Connecticut state legislator, the Universal Health Care Foundation has persuaded many more of the stakeholders, including several chambers of commerce, large and small businesses, and the state medical society—which would seldom, if ever, be seen around a traditional progressive coalition table—to join with citizen, labor, and faith-based groups to chart a path for universal health care. By September, Universal will have developed a comprehensive proposal around which they will organize. Figueroa says, "I'm very optimistic that we will have the broadest coalition in the state around a specific proposal."

Further, Universal is putting its $50 million in assets to work by sponsoring communications initiatives and launching an ambitious organizing campaign, also in-house, called HealthCare4Every1. The campaign is funded by what any coalition organizer would recognize as a dream come true—about $2 million annually in grants to boost the capacity and commitment of stakeholders. The grants, averaging $50,000, go to a diverse set of 40 grantees, including chamber of commerce health councils, minority business councils, and labor unions.

The campaign, directed by Lynne Ide, who previously directed both CCAG and Connecticut's progressive political coalition, LEAP, is totally focused on building the base needed to win reform. It has identified as its primary 2008 goal building a list of 100,000 people who have signed onto the campaign (in a state of 3.5 million people).

SO WHAT CAN BE EXPECTED TO HAPPEN IN Connecticut in 2009? How proposals for universal health care fare will depend on several factors.

One will be the outcome of the presidential election. A refrain echoed in almost every interview with public officials, advocates, and stakeholders was the impact of the national elections on the state. What if a Democrat wins? How soon might any proposal be moved by Congress? For financial and "business-climate reasons," some, like Williams, see a national program as the only vehicle through which broad-based universal health care can take place, though several, including Williams, advocate for a state "system of universal primary care." Christopher Bruhl says: "We want a national framework. Business doesn't want 50 different health-care programs." At the same time, the strongest advocates believe their work needs to proceed regardless of what happens nationally. Swan says: "In 1993, the national campaign sucked the air out of state efforts. This time there will be 1,000 flowers blooming, continuing to pressure for action at the state level."

A second critical question is what role Republican Gov. Jodi Rell will play. Will she sign any significant piece of comprehensive reform? No one seems to really know. An important indication will be whether she signs Donovan's bill to bring municipal workers and others into the state health pool.

A key point for Rell is her emphasis that the state can't afford an "expensive" health-care reform proposal. Her modest Charter Oak plan is only expected to cost $17 million in its first year of operation, though Michael Starkowski, the commissioner of the Department of Social Services, says that figure will grow as more uninsured come into the system. Rell, using a legislative analysis, throws out $17 billion as to what a universal health-care system would cost, a figure comparable to the size of Connecticut's state budget. Figueroa calls these reports "grossly misleading. Connecticut currently spends between $15 [billion] and $22 billion on health care. Both the single-payer and purchasing pool approaches would reduce health-care costs and save Connecticut money."

The funding challenge should not be minimized. How to deal with major costs in an era of tight state budgets is a daunting question. Even presuming advocates are correct that a universal system will save money in the long run, many acknowledge government will at least have to come up with the funds to pay the "transitional costs" of getting from the present system to a universal system.

Another challenge is the opposition of the largest employer group. The insurance industry argues, not without some merit, the potential of major losses of jobs and profits in the industry. It also emphasizes the national impact if the state were to adopt a policy that was perceived to be hostile to the insurance industry. That is why many Connecticut proponents of universal health care say the ultimate answer needs to come from a national program. Yet the kind of grass-roots organizing and coalition-building that is occurring in Connecticut can help mobilize national opinion and legislative actions, whether success comes at the federal level, the state level, or both.

All the players are pointing to 2009 as the year in which to take important steps toward universal health care in the state. But there is also recognition of the height of the climb. Figueroa says: "Structural reforms, in terms of changes in delivery and new ways of financing health care, are challenging issues; to say they may not be resolved in 2009 should not come as a surprise to anyone." The challenge grows even bigger, advocates say, because part of the equation is changing people's attitudes about government, restoring the notion that any government program will really deliver positive changes in people's lives.

All this is a reminder that achieving universal health care will not come easily. Overcoming entrenched interests, rallying sufficient public support to "win," solving difficult policy, economic, and funding issues, and shifting deeply felt public attitudes and cynicism are no small matter, and will likely require a multiyear effort. But in this insurance enclave, forces are gathering that could hold the promise of success. **TAP**

Marc Caplan, *a program officer for the Proteus Fund, is responsible for its Piper Fund for Campaign Finance Reform.*

Lessons From California

The Schwarzenneger plan was a near miss, but well worth the trouble. The stage is set for the next effort.

BY ANTHONY WRIGHT

GOV. ARNOLD SCHWARZENEGGER of California titled 2007 "The Year of Health Reform." By early 2008, a comprehensive health-reform plan had been negotiated by a Republican governor and a Democratic assembly speaker. It was supported by a broad coalition of not just prominent community groups and labor unions but also key health providers, insurers, and business leaders. As a longtime consumer advocate active in the debate, I was disappointed that the effort ultimately stalled in California's Senate. The policy framework would have expanded coverage to the vast majority of the uninsured—ultimately covering over 95 percent of Californians as well as providing financial assistance to millions of insured families now struggling with health-care costs. But this is not the final round in the effort for health reform in California.

What lessons can we learn from the near miss of 2007–2008?

Persistence pays off. Gov. Schwarzenegger seemed an unlikely health reformer. The Democratic legislature passed multiple proposals to expand coverage—for workers (through an employer requirement in 2003 and 2004), children (via a public program expansion in 2005 and 2006), and all Californians (with a single-payer framework in 2006)—all of which Schwarzenegger blocked either through a veto or by opposing a ballot measure. But by forcing the governor to continually say no, the pressure mounted for him to put forward something to which he could say yes.

Golden State Glow: The nurses' union demonstrates in favor of true universal coverage.

REED SAXON / AP IMAGES

Gov. Schwarzenegger recognized that people couldn't be required to get coverage without systemic reforms.

Different paths can lead to the same conclusion. To Schwarzenegger's credit, in January 2007 he put forward a serious and iconoclastic proposal. He started from a philosophy of individual responsibility—that everybody should be mandated to have health insurance, especially to reduce the "hidden tax" in premiums that goes to uncompensated care. We challenged this framing of the problem that blamed the uninsured, rather than the system. But Schwarzenegger recognized that people couldn't be required to get coverage without systemic reforms. This chain of logic led the business-backed Republican governor to support many policy elements from previous Democratic proposals.

Under the governor's initial proposal, insurers would be prohibited from denying coverage because of pre-existing conditions. Recognizing that many low-income families couldn't afford insurance, Schwarzenegger proposed major expansions of subsidized public programs. With more Californians relying on these programs, he sought to make it easier to enroll, and to increase provider rates. And to prevent employers from dropping their current coverage, he also proposed a minimum employer contribution to health benefits.

It's all about affordability. There was one central problem. The governor proposed a universal mandate without adequate assistance. The issue wasn't that consumers did not want coverage but that the original mandate wasn't conditioned on availability and affordability. For too many facing the mandate, the coverage wasn't affordable to purchase (with reasonable premiums), affordable to use (with reasonable out-of-pocket costs and covered benefits), or affordable in value (with premium dollars going to patient care rather than to middlemen).

Late in 2007, Gov. Schwarzenegger ultimately agreed on a proposal more acceptable to a Democratic legislature and its constituencies. The final proposal would have created:

- the largest expansion of public programs since the establishment of Medicare and Medicaid 40 years ago—and additional subsidies for families up to four times the poverty level, above median income;
- a meaningful minimum employer contribution (of up to 6.5 percent of payroll) to health benefits, setting a standard like the minimum wage does for pay;
- a statewide purchasing pool that could bargain for lower rates; and
- a public insurance option that would have been a new, affordable choice for employers and consumers.

Focus on group—not individual—coverage. The proposal bolstered group coverage with which people are familiar, through employers (now covering half of Californians) and public programs (covering nearly a third). Those still buying coverage as individuals received additional consumer protections, like the ability to get insurance regardless of health status. The plan also would have appropriately shrunk the size of the individual market, where individuals have the least market power to negotiate with big insurers and where coverage is most expensive.

Remember the more than 90 percent of voters who are insured. Like the plans of the Democratic presidential candidates, the California proposal would have allowed most people to keep the coverage they have now—coverage they value and want to protect. This framework helped reduce, but not eliminate, understandable fears of change in the health system.

Take strategic steps to bigger solutions. While some single-payer supporters opposed the proposal, others saw it as a

strategic step forward that creates some of the policy infrastructure for single-payer, including expanded public programs, a state agency tasked with purchasing health benefits, and even a financing stream through assessments on employers. This type of reform could facilitate a political realignment toward single-payer. Employers who don't provide coverage would have to pay their fair share either way. Improving payments to providers in public programs would help ease their concerns that a single-payer system will pay poorly. With more low- *and* middle-income Californians getting care through public programs or a state purchasing pool, it would be harder to demonize government-run health care. But fundamentally, success breeds success: Even a partial victory provides momentum and encourages policy-makers to look for the next best thing.

Powerful forces have a stake in the status quo. In the end, opposing interests killed the proposal. These interests included Blue Cross/WellPoint, as well as the Chamber of Commerce, the National Federation of Independent Business, and other major employer organizations. Big Tobacco was opposed to a tobacco tax of $1.75 per pack of cigarettes added to round out the financing. These groups had enough sway with enough business-oriented Democratic state senators to put the proposal in doubt.

Don't let political leaders escape accountability. A united health-reform base of consumers, labor, and providers might have overcome such opposition, but these constituencies were split as well. With some opposing the proposal from the left (and with a looming budget crisis), there was enough political cover for state senators to avoid accountability.

Get enough support to unite—and divide. And so we missed a great political opportunity where the constituencies traditionally opposed to reform—employers and insurers—were split. Gov. Schwarzenegger had brought along some of his allies in the business community, framing the reform as "shared responsibility." And while Blue Cross/WellPoint, the state's largest insurer, opposed the proposal—because of the guaranteed issue requirement and the minimum benefit standards—many of the competing insurers agreed that they could live with new rules.

Don't give up. We're never done. Despite the stalling of this effort, this isn't 1994: Public opinion polls in California and nationwide continue to rank health reform as a top priority and show broad support for this framework. The two recent coverage expansions on the California ballot came within a percentage point or two of passing, despite multimillion-dollar opposition campaigns. Gov. Schwarzenegger is still committed to health reform, as are the incoming Democratic leaders in the California assembly and Senate. The presidential campaign has already elevated the issue, increasing the chance of real reform passing at both the state and federal levels.

As with the previous efforts at health reform in California, we dust ourselves off, keep working, and get closer. This was not the first year of health reform, and it won't be the last. **TAP**

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Borrowing Ill Health

Hospitals are getting more aggressive about sending debt collectors after underinsured consumers.

BY TAMARA DRAUT

AS HEALTH-CARE COSTS CONTINUE to climb, the trend to more "cost sharing" continues, and the ranks of the uninsured keep swelling, more and more Americans are finding that paying for medical care means going into debt. The latest study by the Commonwealth Fund found that one out of five Americans have medical debt—a population that includes many individuals with health insurance. In fact, nearly two-thirds of people who reported being in debt or having problems with medical bills had health insurance at the time the bill was incurred. Medical debt doesn't discriminate by race or class either, though like other economic forces, it disproportionately impacts lower-income individuals and individuals of color.

The rising cost of health care has created a move toward insurance plans that no longer actually insure patients from catastrophic or unexpected costs. As premiums have continued to rise, employers are increasingly offering their employees insurance that is cheaper in cost and quality. Higher deductibles, multiple deductibles for each family member, higher co-pays, along with exclusions for any number of treatments or drugs, have hollowed out the insurance from covering the health-care costs for which it was designed in the first place.

Of course, the uninsured remain at the highest risk of succumbing not only to illness by not getting preventive care, but to medical debt. Half of uninsured adults report medical debt or bill problems. The public often has the impression that the uninsured are immune to rising out-of-pocket costs since they can get free care at any public hospital, or qualify for charity care of some type. The reality is uninsured patients may actually be charged more for care they get at the doctor's office. Insured patients get negotiated discounted rates, while those without insurance are charged and often expected to pay the full sticker price. Many hospitals and providers are turning to financial service companies that ease their burden for collecting bills by

providing patients with a new way to pay their health bills: with credit.

In 2005, the uncovered costs of health care, not including premiums, added up to $250 billion, according to the consulting firm McKinsey & Company. Increasingly, those out-of-pocket costs are being borne through debt—as more providers outsource their receivables function to third-party collectors, or by teaming up with a financial services company that provides credit cards or a line of credit to patients when they receive care. Capital One, Citigroup, General Electric, and U.S. Bancorp have all entered the field to assist "self-pay" (read: uninsured or covered by high-deductive plans) patients in meeting their health-care costs. While some banks now offer medical-care credit cards, other products are less obvious to consumers. As a cover story in *Businessweek* detailed, hospitals or doctors' offices that once offered interest-free payment plans are now transferring their accounts to a third party, like CompleteCare, which pays the hospital upfront, then makes its money collecting the debt from the patient, often at considerable interest. Under these plans, patients who are past-due may be charged as much as 27 percent interest on their debt. Often these products are offered under the guise of "financial assistance" to patients, with fees and finance charges buried in fine print. Patients often think they are signing up for a payment plan with the doctor's office but are unwittingly agreeing to a credit card or credit line to pay for their visit.

In addition to these new forms of deceptive financial products, patients are also increasingly turning to ordinary credit cards to pay for medical expenses. In 2005, when Dēmos and the Center for Responsible Lending surveyed 1,150 low- and middle-income households with credit-card debt, nearly one-third of those sampled reported that they had used their credit cards to pay medical expenses. Those households had substantially higher levels of credit-card debt—an average of $11,623 versus $7,964 for households without large medical expenses.

As explained in *Up to Our Eyeballs*, a new book on debt in America, when people finance their medical expenses on plastic, their health problems become tangled up with all the problems of credit cards—the unpredictable interest rates and the maze of ever-changing terms, conditions, and fees. It's hard to say how much of the over $12 billion in late fees charged by the card companies were accrued by people who made late payments because their illness had them laid up in the hospital, or because the monthly credit-card bill got overlooked in between doctor's appointments and calls to the insurance company.

Medical debt coupled with increasing deductibles and co-pays also causes people with health insurance to delay or forego the medical care they need. In other words, it's causing the insured to act like the uninsured. A study by the Kaiser Family Foundation found that patients with medical debt *and* insurance were more than four times as likely as their debt-free counterparts to delay care, more than twice as likely to leave needed drug prescriptions unfilled, and more than three times as likely to skip recommended treatments and tests. Medical debt prevents people from getting care for many reasons: embarrassment in facing the provider to whom they owe money; inability to pay for follow-up visits because the payment is now demanded upfront; or simply denial of care due to existing debt with the provider.

Other financial hardships are common among households with medical debt, as medical costs crowd other costs of living. In the Commonwealth Fund survey, among people reporting medical debt or problems paying medical bills, one-quarter were unable to pay for basic necessities (food, rent, or heat) because of medical bills; nearly two out of five had used up all of their savings; one-quarter had taken on credit-card debt; and one-tenth had taken out a mortgage against their home. According to a study conducted by the Access Project, more than one-quarter of those with medical debt had experienced some type of housing problem resulting from their debt. Many of these individuals will ultimately end up in bankruptcy court, felled by the very system that is supposed to prevent people from catastrophic costs related to illnesses or injuries.

Medical debt and increasing deductibles and co-pays are causing even the *insured* to forego care they need because of costs.

Medical debt is a problem in its infancy, and the entry of well-established banks along with new upstarts offering credit cards and credit lines creates the potential for exploitation and abuse. At its core, health insurance is supposed to provide access to care and protect patients from the financial devastation of catastrophic illness or accident. The new epidemic of medical debt is evidence that our system is failing on both counts. TAP

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How We Got Into This Mess

Trade, the war on unions, and underfunded schools all lowered wages. Cheap credit propped us up—but now, the debt is due. Herewith, a national economic strategy to turn America around.

BY DAMON SILVERS

We are living through a profound financial crisis. That crisis has many proximate causes in the governance and deregulation of Wall Street. But its real roots lie in the long-term weakening of the real American economy in an era of globalization—in closed factories, outsourced high-tech jobs, low-wage jobs with no benefits, and in the unsustainable effort to maintain middle-class living standards through borrowing.

For 30 years, America's economic elites and their political allies have pursued policies designed to produce this low-wage economy. But at the same time, policy-makers of both parties have sought, with some success, to maintain high levels of consumer spending. The creation of this low-wage, high-spending economy has systematically destroyed the various ways we individually and collectively save and invest. Instead of an income-driven economy, we have become an economy driven by asset bubbles fueled by cheap debt. The ultimate unsustainability of this strategy has brought us to our current economic crisis.

The assault on good jobs has proceeded on two fronts. In the purely domestic realm, starting with the effective abolition of the right to form unions in the private sector, both the formal and informal structures that encouraged the growth of worker bargaining power have been dismantled. A genuinely progressive tax system contributed greatly both to America's ability to make major public investments and to our increased levels of income equality after World War II. Now we have a tax system that taxes upper middle-income workers and individuals with incomes measured in billions at the same marginal rate (unless those billions come from managing hedge funds and private equity, in which case the billionaire's marginal tax rate is actually lower than that of middle-income workers).

At the same time, U.S. public policy has promoted the emergence of a global market with no rules other than those designed to protect economic elites. Global corporations all have strategies for success in the global economy, but the United States has consciously refused to have a strategy for how to remain a middle-class society in a global economy.

Without rules for the globalized economy or a meaningful national strategy for preserving and increasing their incomes, America's workers were fully exposed to competition from low-wage economies. The resulting downward pressure on wages and the soaring trade deficit should have shrunk U.S. consumer spending. But debt-financed asset bubbles provided an illusory way for Americans, and America, to maintain their levels of consumption.

For a time, the trade deficit itself, combined with the strategic behavior of our trading partners, provided the financing for these asset bubbles and the high levels of consumer spending. The strategic behavior was the refusal by the Chinese and others to allow their currencies to appreciate, either by formally or informally pegging the value of their currency to the dollar. In this way our trading partners enabled us to keep purchasing from their factories, even as our real economic capacity was declining.

Neither individuals nor countries can borrow forever to fund current consumption, however—and thus came the collapse of the housing bubble and with it, the global credit crisis. This is not an ordinary business-cycle downturn—it is a crisis of a failed economic and social model.

IN THE 1980S, the United States began to set the course that led to the present economic crisis. This was the period when both the Reagan administration and the business community began to seriously attack the institutions that drove the high-wage postwar economy. This was the period when the progressive income tax was substantially eliminated for high-income Americans and when the federal government ceased in a meaningful way to protect workers' right to organize and collectively bargain, fueling a dramatic decline in union strength.

In the 1990s, these trends were accelerated by a series of trade agreements and technological developments that fully exposed the U.S. economy to goods and services produced by low-wage labor around the world. Prior to 1989, both China and India, the world's two most populous countries, were pursuing economic policies of internally driven development and were not participants in larger global markets as exporters.

Mexico, our closest low-wage neighbor, was not economically integrated into the United States. American business historically had been supportive of high-trade barriers, fearing competition from foreign manufacturers.

All this changed as these countries and others deliberately began to transform themselves into export platforms integrated into the global economy, and more important, as U.S.–based global corporations began to see their non–U.S. operations not just as sources of raw materials but as cheap production sites. NAFTA was the first legal embodiment of these changes, and it was followed by the development of the World Trade Organization in the later 1990s, and then, and ultimately most consequentially, by the granting of most favored nation status to China in 1998.

The resulting downward pressure on wages meant that although the productivity of U.S. workers improved dramatically since 1980, their real wages remained flat, with the exception of a brief period in the late 1990s, at the height of the tech and telecom asset bubbles and before China really became a force in U.S. markets.

But the story of the decoupling of wages and productivity doesn't do justice to the full destructiveness of our low-wage strategy, since it also destroyed our savings and our ability to invest. Employers not only reduced wages but dismantled our pension system.

In 1980, roughly half of the nation's private-sector workers were covered by a defined benefit pension plan, with typical employer contributions of around 8 percent of payroll. Today, less than 20 percent of the private-sector workforce has such a plan. The other 30 percent has a 401(k) or other savings account, with employer contributions averaging less than 3 percent. Hidden in this change is a 5 percent real pay cut, but one with no impact on current consumption. The corporate retreat from employer-provided health care, particularly retiree health care, is a similar story.

In the public sector, starting in the 1980s, tax cuts that overwhelmingly benefited the rich robbed government of revenues necessary to fund public investment, both at the state and federal level. The nation is now left with schools that do less and less just when we need them to do more and more, with no money for infrastructure just when the roads and bridges we built during the great postwar infrastructure boom are wearing out, and, perhaps worst, no public resources to take on the great challenge of global warming and sustainable energy.

Ultimately, even the retreat from public and private savings was not enough to maintain a healthy consumer-driven economy in an environment of falling wages. So as a nation we went from eating our own seed corn to borrowing money in order to buy more seed corn to eat. Ironically, the very conditions that were driving down wages created a ready and willing source of a temporary rescue in the form of cheap debt. As our trade deficit skyrocketed, our trading partners in Asia accumulated trillions of dollars. China, Japan, and, more recently, the oil-producing countries lent their dollars back to us.

Fueled by cheap debt and inflated assets, the last five years have seen historically unprecedented investment returns in residential real estate, leveraged buyout funds (now called private equity), and hedge funds. These returns encouraged the belief that it was not necessary to fund retirement, because real estate appreciation made pensions unnecessary, or because hedge-fund and private-equity returns could make up in investment returns what pensions were lacking in direct contributions from employers.

Global corporations all have strategies for success in the global economy, but the United States has consciously refused to have a strategy for how to remain a middle-class society in a global economy.

So consumption rose as income and savings declined. In the early 1980s, consumer spending came to just over 60 percent of the U.S. gross domestic product. Today, it is over 70 percent. The increase is a measure of the extent to which we have maintained consumer spending by not investing in our future as a nation or our futures as individuals, and ultimately it is a measure of the unsustainability of our current economic policies.

The precise relative importance of manufacturing trade deficits, energy-related trade deficits, and the generating of credit capacity through pure financial engineering in creating the disastrously low-cost of risky debt in the last few years is unclear. But so long as cheap credit flowed from our trading partners, energy suppliers, and financial engineers, our economy looked much healthier than it really was. The vast amounts of economic activity in housing construction; in the transportation, marketing, and sale of consumer goods; and in government-related spending (not least, in Iraq) were artifacts of our ability to borrow, not measures of our overall productiveness.

The consequences of these policies are very clear. We have just gone through the first postwar economic expansion in which real wages did not rise. Pension and health-care coverage for Americans has shrunk dramatically. Poverty rates have been rising since 1999 and are now again above where they stood in 1973. Our negative balance of payments keeps growing, and the dollar keeps falling against the euro. We are losing the very high-tech jobs that we were supposed to keep in an era of globalization—jobs in aerospace and information technology. The price of oil is over $100 a barrel, and oil production on a daily basis is not increasing, while demand from other countries is growing apace. And hanging over our future is the threat of a radically destabilized climate because of our refusal to address the damage done by our carbon emissions.

OUR NATION NOW FACES a choice between continuing our low-wage, high-consumption economy until we truly bankrupt ourselves, or becoming a high-wage economy again, driven by investment in our human capital, in our physical capital, and most of all, investment in the technologies the world desperately needs—the energy technologies of the 21st century.

We need a national economic strategy for a globalized world. Part of our strategy has to be to work together with the other major economic actors in the world to see that this new globalized economic order has rules—rules on labor and environmental issues, rules for the enormous flows of capital across borders. Labor-market rules have to begin with the meaningful, enforceable recognition of the right of workers to organize, starting in the United States. Environmental rules have to begin with global rules governing carbon emissions, as the Bali talks on global warming recognized late last year. The regulations of capital flows have to be comprehensive and global, based on principles of transparency for pools of capital such as hedge funds and sovereign wealth funds, and the regulatory oversight of conflicts of interest and moral hazard in major financial intermediaries.

But even with rules, the United States also needs a strategy—an idea about what our role will be in the global economy. We need to shed the delusion that we are so big and important in the global economy that we do not need a strategy, that the global economy will inherently work to benefit us.

The first place we need to start is public investment, which has historically meant infrastructure. Now it needs to mean the integration of infrastructure with energy technology—energy-production technology like improved solar and wind generators but also energy-distribution technologies like those that drive digital electrical grids, and energy-conservation technologies, like advanced building materials.

Climate scientists tell us that time is running out—that we need to change the way we fuel the global economy very quickly. For the United States, time is running out in a different sense. We have a window now in which we can act. We are still wealthy enough as a nation to have the resources to devote to this strategic shift, more resources than key competitors in the global economy. We have the resources to be the first mover and to reap first-mover advantages, to develop a critical industry we can market to the world. But this state of affairs is deteriorating—so we need to act quickly.

To do so, we need a wartime sense of urgency—both in developing and deploying new energy technology. We need to think about redesigning our electrical grid, renovating our entire building landscape to be energy efficient, deploying wind and solar power at scale, and radically accelerating the timetable for development of critical new technologies. To do these things fast will require tens of billions of dollars just at the development stage, but we as a nation are at our best in taking on these kinds of challenges.

The second big step is to change our labor-market policies to encourage a high-wage economy. That means national health care and a national pension policy to restore adequate retirement savings. It means rebuilding the connection between productivity and wages, making workers' right to organize and bargain real again, by passing the Employee Free Choice Act. And it means an end to a caste system in our labor markets, where currently we hire undocumented workers and then deny them all rights in the workplace. These measures have to be paired with improvements to our public schools at every level, so that worker productivity continues to increase.

These policies should reinvigorate the middle class in the United States, a middle class based in part on the United States' role as the provider of the technologies at the heart of a global revolution in how we use energy, in part on the vast work that must be done to retool our own infrastructure, and in part on policies designed to make sure that ours is a society of rough economic equality. This new direction would make us a nation of savers, not of borrowers, a nation whose economy is no longer founded on borrowing but on providing the most sophisticated technologies to the rest of the world.

Steered by its economic elites, the United States has made choices for a generation about how to approach globalization under the influence of a fundamentally false ideology. This ideology says that rules to protect the public interest have no place in a global economy. It says that while strategy is good for businesses and good for wars, it has no place in U.S. economic thinking or policy-making. The choices this ideology has fostered have eroded the American middle class, damaged our national competitiveness, and helped expose the entire world to catastrophic environmental risk. Debt has been used to hide these consequences, but now that debt has come due.

So the next president will come into office facing a multitude of challenges—a housing- and credit-market driven recession, rising energy prices, global warming, a current account deficit that is spiraling out of control, the war in Iraq, a collapsing dollar, a rising China and India, long-term crises in health care and retirement provision. Treating each of these crises individually while continuing our low-wage, high-debt economic strategy will certainly result in failure. The challenge is to understand that there is a choice, a different direction we can and must go in. And then, to go there. **TAP**

__Damon Silvers__ is the associate general counsel of the AFL-CIO.

MICHAEL SLOAN

Bubble and Bail

For most of the 20th century, America manufactured things. For the past 30 years, though, it has chiefly manufactured debt. Here's how Wall Street, with the aid of both political parties, gravely damaged the economy.

BY KEVIN PHILLIPS

As of spring 2008, we're probably just a third of the way through the unfolding debacle in the housing, credit, and financial markets. In political and regulatory terms, the ultimate problems and remedies have only begun to define themselves.

We're not just looking at an ordinary recession. Since the 1970s, the United States has redefined itself from a manufacturing nation to a financial economy built on debt, leverage, and a considerable ratio of speculation. Both political parties have been complicit in this, and the downturn now beginning will be unusual and potentially tragic.

The case being made in some reform-minded and progressive circles—that we are on the cusp of a grand political, ideological, and pro-regulatory opening such as that of 1933—has some logic but also merits a considerable amount of economic and historical caution. The plausible analogies deserve a quick run-through. To begin with, there is the prospect that, over the next few years, the largest credit bubble since the Roaring Twenties is going to unwind with at least some of the angst and pain of the Depression years. In 2007, total credit-market debt in the U.S. reached almost 340 percent of gross domestic product, far above the previous high-water mark of 287 percent a few years after 1929. Second, it is also becoming likely that the 2006–2010 decline in U.S. home prices will be the largest in three-quarters of a century.

However, there are also good economic reasons why the analogy should not be overindulged; today's U.S. political economy is quite different from that of 70 years ago in several ways. First, whereas the 1929 crash came in the wake of three to four years of strongly deflationary trends in the global commodity markets, today's international economy is caught up in what appear to be major inflationary pressures in global agricultural and energy prices. In its panic over deflation, today's Federal Reserve may be more likely to err in the direction of feeding inflation.

The second relevant caution is that finance is a far more dominant element in the current-day U.S. economy than anyone could have imagined in the era of Herbert Hoover. Even amid 1929 ballyhoo and tickertape, finance was overshadowed by manufacturing. In the 1990s, by contrast, financial services sprinted ahead of manufacturing as a share of U.S. GDP. By 2006, financial services counted for over 20 percent of the economy, and manufacturing just 12 percent. As of 2008, portions of this swollen sector—mortgage finance, reckless securitization products like Collateralized Debt Obligations (CDOs), and elements of the credit markets—now threaten to implode. Still, even if the de-leveraging of the U.S. economy over the next few years is as painful as it was during the 1930s, that does not necessarily re-recommend the New Deal regulatory model. It will probably recommend some model that the 2008 political debate has not even touched upon.

The third relevant caveat is that the United States is now far more exposed to negative international actions and perceptions than it was in the 1920s and 1930s. Back then, the United States enjoyed three beneficial attributes: It was the world's leading energy producer, the world's leading manufacturer, and the world's leading creditor nation. So favored, the U.S. economy was able to survive the years of Herbert Hoover's inactive stewardship. Over the last decade, however, under the derelict management of George W. Bush, the United States has cemented its embarrassing status as the world's leading debtor nation, the No. 1 importer of foreign manufactured goods, and the No. 1 importer of foreign oil. As a result, the shrunken dollar has lost over 40 percent of its value against the euro since 2002. That shrinkage could even intensify if foreigners believe that the U.S. government, in particular the Federal Reserve Board, is committed to supplying liquidity to rescue reckless financial institutions at risk of inflation and at the expense of dollar holders.

The careful reader may now be saying: Ah, so in some ways, the next couple of years *could* be more trying than 1929–1932. Yes, at least insofar as this time we have a half-century of undisputed global economic hegemony to lose. However, the 1930s analogy may be a political illusion. New Deal–style interventionism, which succeeded in the largely domestic financial context of the 1930s, is probably not suited to the realigning global economic milieu of 2009–2112. Realistically, it will be a year or two before we have a good idea of what might be better suited. Still, the next administration will have to have a pro-

active international strategy with respect to oil and currency matters, two particular failures of the Bush regime.

My concern is that the U.S. economy truly faces its most serious difficulty since World War II or the Depression, and the established wisdom of Democratic and Republican gurus alike has little handle on the dilemma's causation or probable time frame. The last two presidential elections where *major* economic weakness was front and center—1980 and 1932—had ingredients and predicaments that dated back several years or more, and both out-parties had their election arguments reasonably at hand. Even so, the consequent economic reform and policy debate stretched out for two to three additional years. As of April 2008, we are further behind this new cycle's analysis-and-debate curve.

Without trying to frame a specific list of reforms, which I do not have, the new outline of economic- and financial-sector failures is somewhat easier to identify. Between the 1980s and the present, the United States moved in three unfortunate directions: first, the adoption of public and private debt as both an economic nostrum and culture; second, the pursuit of a neo-mercantilist policy (bailouts and other policy biases) that all but anointed finance (rather than high-value-added manufacturing) as the Washington-favored U.S. sector; and third, abetting an economic realignment through which manufacturing fell from some 25 percent of GDP in the 1970s to 12 percent in 2006, while financial services jumped from 12 percent in the 1970s to between 20 percent and 21 percent during the 2003–2006 period.

MICHAEL SLOAN

Was this three-fold change in direction ever debated in the public square or in the halls of Congress? Of course not. Most conservatives and many liberals in Washington were busy chanting a simplistic mantra—government can't be allowed to pick winners—while the Treasury Department's and Federal Reserve Board's favoritism toward and bailouts of finance amounted to essentially that.

Over the last quarter-century, under Republican and Democratic administrations alike, the two major tools of this transformation were debt and the socialization of *risk* (but not of *profit*). The second, of course, abetted the first. When reckless expansion of consumer, corporate, or financial debt would go sour, the government served up a bailout to help the financial sector come back, fatter and cockier than ever. To suggest "bubble and bail" as a description of U.S. economic policy over the past quarter-century is inelegant but by no means inaccurate. Obviously, this is not the way to manage a nation passing the peak of its global power and very much at risk from a reckless financial endgame.

Indeed, the historical precedents are chastening. Both of the last two leading world economic powers—the Dutch from the 17th century into the early 18th and the British from the early 19th century to World War I—did more or less the same thing. After they built their global economic clout they shaded away from making and trading things into a prideful emphasis on financial services and debt, and both ultimately took on international and military commitments they couldn't afford. The lesson is that global economic success breeds hubris and that hauteur breeds over-financialization.

As of spring 2008, these fat golden pheasants have come home to roost. The interaction of reckless finance and failed politics may well be bringing about the great global crisis of American capitalism. Back in the Spring of 2007, preening Wall Street strategists were heard to boast that financial output—principally corporate bonds and structured financial products—could in itself provide a lucrative enough export to offset most of the $800 billion yearly U.S. current account deficit. The latter principally reflected how the United States was obliged to import one-third of the manufactured goods it needed and almost two-thirds of the oil. By early 2008, however, this pretense of an eager world awaiting U.S. financial exports had collapsed alongside the credibility of CDOs and mortgage-backed securities. In 2006, foreign net acquisitions of long-term U.S. stocks and bonds came to $722 billion, but that dropped to $596 billion in 2007, because of plummeting overseas demand after the August credit-market panic. (Asian government funds that seem to be bailing out U.S. banks and investment firms are now insisting on actual ownership percentages, not just the speculative investment products that have put the U.S. financial sector into such disrepute.)

No sane parliament or Congress would ever vote to put the fate of a leading economic power at the top of its global trajectory in the hands of a sector given to manias, bubbles, panics, crashes, incessant speculation, rich-poor polarization, and roller-coaster movements in interest rates and credits. But that may well be what happened over the last quarter-century—creating, however inadvertently, a debt bubble that dwarfs that of the 1920s.

WHAT DO WE DO NOW? What cannot work, alas, is any attempt to jump into a political time machine and reverse the political and economic decision to cast America's destiny with the ambitions of mega-finance. Better if we could reverse it—better if debt had remained under control instead of making itself into a grand and lucrative industry. Better if housing in the United States had never been hot-wired to global credit markets. Better if financial services had been kept in the range of only 14 percent to 15 percent of GDP, while a vital manufacturing sector more akin to those in Germany, Japan, and Switzerland had

been made into the 21st-century U.S. economic centerpiece.

That is no longer an option. And however satisfying the attempt might be, there is no way to whip an abusive financial sector back into shape in the 1933–1936 manner. By 1936, the financial sector was deflated and beaten, a small, shrunken lump on the Depression-era economy. As of early 2008, by contrast, the finance, insurance, and real estate sector, although somewhat trimmed, is still the largest sector in the private economy, and the financial markets remain the command center for much of the rest. Money still owns—or at least rents—U.S. politics. And more specifically, the financial sector—including mortgage finance and the credit-card issuers—is at the center of an unprecedented web of public and private debt that has been spun through and around the so-called real economy. Finance has become the *real* "real economy."

This is no vague abstraction. The growth of public and private (consumer, corporate, and financial) debt shown in the table at right is closely related to the rise of what the press has belatedly started to call the debt industry. Indeed, most financial-services conglomerates can list debt and credit instruments (cards, securities, and fees) as their principal products and services. For what is sometimes lumped together as Wall Street, the rise in total U.S. financial and non-financial debt from $2.4 trillion in 1974 to a staggering $44.7 trillion in 2006 was a vocational Comstock Lode.

It has been a commonplace in political Washington that "bad" debt is principally the public kind associated with federal budget deficits, and the rest of it doesn't matter that much. But however convenient this differentiation may be for members of Congress who receive 40 percent or 50 percent of their campaign funds from the financial-services industry, it is also deceptive. As the table shows, between 1974 and 2006, the biggest growth was not in public or non-financial business debt but in financial and consumer (principally mortgage and credit card) debt. In short, the decisive increase was in the facilitation of the debt and housing bubbles and the ballooning of the financial-services sector. Take particular note of the $10 trillion growth of financial debt between 1994 and 2006. This was a fair part of what skyrocketed financial assets, fueled the hedge funds, leveraged the financial sector into the economic catbird's seat, and transformed debt into a systemic booby trap.

The Federal Reserve Board's rapid money supply expansion aided and abetted the expansion of private debt, while the government's periodic bailouts—of the Mexican peso in 1994 and Long-Term Capital management in 1998—minimized Wall Street's casualties. Together, these policies gave dangerous encouragement to the reckless elements of the financial sector. During the 1997–2001 period, this private debt boom nurtured the high-tech bubble along with such malefactors as Enron, WorldCom, and Global Crossing; then, between 2002 and 2006, it fed the malfeasance of mortgage lenders and Wall Street packagers of such exotic instruments as CDOs and deceptive mortgage-backed securities.

Both Democratic and Republican presidents pursued these policies. The Reagan administration and the first Bush administration indulged in deficit-ridden public finance and reckless lending practices in commercial banks and savings and loan institutions alike; the bailouts were notorious. The Clinton administration brought down the federal budget deficit but bailed out Wall Street repeatedly and abetted the private-debt orgy that nurtured the tech bubble. The second Bush administration, together with the Greenspan Fed, encouraged the blowing up of a giant mortgage and housing bubble to replace the stock-market bubble that imploded in 2000–2001. The Republicans may be more to blame over five presidential terms than the Democrats were during just two, but both parties seem to have pursued a common underlying financial mercantilism of bubble and bail.

DEBT OUTSTANDING BY SECTOR *($ billions)*

	1974	1984	1994	2004	2006
Domestic Financial	$258	$1,052	$3,791	$11,868	$14,184
Foreign Financial	81	233	443	1,431	1,764
Total Non-financial Business	821	2,315	3,830	7,650	9,031
Total Household	680	1,943	4,541	10,593	12,873
Federal Government	358	1,364	3,492	4,395	4,885
State & Local Government	208	514	1,107	1,683	2,007
Total U.S. Financial & Non-financial Debt	2,407	7,422	17,205	37,620	44,744

SOURCE: *FLOW OF FUNDS*, "DEBT OUTSTANDING BY SECTOR," SEPT. 17, 2007
(COLUMNS MAY NOT ADD UP TO THE STATED TOTALS BECAUSE OF ROUNDING.)

Perhaps that is why, when the Federal Reserve Board threw any trace of classical free-market economics out the window to rescue Bear Stearns, to cut interest rates by three-quarters of a percent, and to open up its vaults to investment firms wallowing in the consequences of their own strategic misjudgment, the three major presidential hopefuls, Democrats Barack Obama and Hillary Clinton and Republican John McCain, were uncritical and broadly supportive. The socialization of credit risk is now bipartisan public policy. The intimate collaboration of the federal government and the financial sector is now bipartisan public policy. A desperate attempt to patch leaks in the overgrown debt bubble is now bipartisan public policy. If anybody seems inclined to break with the bipartisan past, however, it is Obama.

The United States is not a second Japan, but the extent to which the U.S. government has also been drawn into financial mercantilism, subsidies and assets management not unlike that of the Japanese in the early 1990s, deserves serious attention. Certainly the senior officials of the U.S. Treasury and the Federal Reserve Board are not going to be wearing the Adam Smith ties so naively sported by Reaganite economists in the early 1980s.

The diminished international reputation of both the United States and its battered currency remains a huge problem. The dollar—the principal hostage to foreign perceptions of these massive U.S. shortcomings and dependencies in goods and energy—has paid a steep price and may have further slippage ahead. The oil-producing nations and top manufacturing countries that hold large reserves in their central banks and sovereign wealth funds may be convinced to drop their commitments to the dollar. Some may doubt that the U.S. can straighten out its

If banks are to be rescued because they are too big to fail, they should also become, in the manner of a public utility, too well-behaved and too responsible to fail.

economic affairs. Others may conclude that pegging their own currencies to a slumping dollar is causing too much inflation, as it is currently in Hong Kong or the Persian Gulf.

Officials in Beijing, Singapore, Riyadh, or Brussels expecting U.S. politicians to confront this nation's fundamental problems during the 2008 election year will be waiting for Godot. Honesty about the American debt bubble or the failures of Washington or Wall Street will be intermittent, at best. If the Republicans are known as the party that kowtows to corporations, the Democrats are coming on strong with their own ties to finance. Not only do the Democrats lead in 2007–2008 contributions from the financial sector, hedge funds especially, but the political geography of their national coalition is increasingly centered in the cosmopolitan states that include the leading money centers: Boston, New York, Philadelphia, Chicago, San Francisco, and Los Angeles. It is very hard to imagine a Democratic president or Congress reversing field to support stiff reforms of the sort sure to be opposed by financial-sector leaders. McCain presumably would be even less inclined.

Let me give some hypothetical examples of the problems crying out for deep reforms. Just as the 1990s leap of financial services ahead of manufacturing in the U.S. economy resembled the triumph of manufacturing over agriculture in the late 19th century, we see today another example of the initial inability of government regulation to deal with the new economic power axis. This most obvious failure came with respect to what bond billionaire Bill Gross calls the "shadow" financial system—the new non-bank financial enterprises from hedge funds to structured investment vehicles and issuers of asset-backed securities—that has grown up virtually unsupervised outside the existing bank regulatory framework. New legislation is in order, but nothing far-reaching can happen before the November elections.

In 1999, even the older elements of the financial sector—banks, insurance companies, and the like—flexed their new muscle successfully enough to repeal the federal Glass-Steagall Act, which had long separated deposit-taking banks from investment activities. Within a few years of repeal, banks, insurance firms, mortgage lenders, and investment companies had intertwined through mergers and holding companies and launched new innovations and experiments. One conspicuous example involved banks, real estate lenders, and issuers of mortgage-backed securities teaming up to offer slick, new, exotic financing to people who were at best marginally qualified homebuyers in order to be able to resell the mortgages *en masse* through mortgage-backed securities and CDOs. Anyone who expects the Democrats to take the lead in re-enacting portions of Glass-Steagall in 2009 should remember that the three most conspicuous proponents of *repealing* Glass-Steagall in 1999 were Democrats—Bill Clinton, former Treasury Secretary Robert Rubin, and Citigroup Chairman Sanford Weill.

As for the securitization process, regulators in Europe, Britain, and elsewhere appalled by the "opaque" products have called for international regulation that sets out enforceable descriptive criteria and perhaps even requires a necessary degree of standardization. There is a chance that other nations will insist that new standards be met. The Bush administration has shown no interest in this kind of solution, but little has been heard from Capitol Hill, either.

The next president will also need to confront the role of banks: If the important mega-banks are too big or too interconnected with the rest of the financial sector to be allowed to fail, then why are they allowed to indulge in every form of speculation and anti-social behavior, from counseling Enron on tax evasion to gouging on credit-card interest and fees? Martin Wolf, chief commentator of the *Financial Times,* has contended that "what we have [in banking] is a risk-loving industry guaranteed as a public utility." If banks are to be rescued because they are too big to fail, they should also become, in the manner of a public utility, too well-behaved and too responsible to fail.

LOOKING AHEAD, if the Federal Reserve Board fails in its attempt to favor, subsidize, and bail out the broad financial sector—not just commercial banks but brokerage houses—then the Fed itself could jump to the head of the list of institutions in need of regulatory reform. During the 1980s, conservative economist Milton Friedman called banking "a major sector of the economy in which no enterprise ever fails, no one ever goes broke. The banking industry has been a highly protected, sheltered industry. That's because the banks have been the constituency of the Federal Reserve."

If Friedman were alive today, he would have to enlarge his critique: The overall financial sector has now become the constituency of the Federal Reserve, which has guided and subsidized its slow but threatening takeover of the U.S. economy. To enlarge the Fed's role now, as Treasury Secretary Henry Paulson urges, is only to reward complicity and culpability.

Having raised these possibilities, I am not sanguine about change. The lesson of history is that previous leading world economic powers, from Rome and Imperial Spain to the Netherlands (back when New York was New Amsterdam) and early 20th-century Britain, have been unable to reform themselves in time to avoid decline. Politics has failed in the face of entrenched interests. In the process, excessive debt and dependence on finance rather than production has been front and center. New nations move to the head of the line—and these days we can see Asia smiling. **TAP**

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Good Jobs for Americans Who Help Americans

Human services is the fastest-growing labor market. Here's how to restore middle-class earnings by making every human-service job a good job.

BY ROBERT KUTTNER

For three decades, the supply of good jobs has been dwindling. The causes include globalization, deregulation, and weaker worker protections, such as minimum-wage laws and government defense of the right to unionize. Now, after three decades of stagnant incomes, we are heading for a severe recession. Higher unemployment will reduce worker bargaining power even further. The cure will require a much more active government role in the economy—both as a regulator and as a source of funds.

In the same 30 years, the service sector has exploded as a source of jobs. The American work force has gone from 28 percent factory workers and 72 percent service workers in 1978 to 16 percent factory workers and 84 percent service workers today. But the service sector encompasses tens of millions of bad jobs—in routine clerical work, retail sales, fast food, low-end human services—and a relatively small number of very well compensated professional positions, among them doctor, lawyer, scientist, and investment banker.

Here is a very straightforward proposal. Let's have a national policy to make every human-service job a good job—one that pays a living wage with good benefits, and includes adequate training, professional status, and the prospect of advancement—a career rather than casual labor.

DON'T MOURN—PROFESSIONALIZE

These, after all, are jobs caring for our parents, our children, and ourselves. Transforming all human-service work into good jobs would not merely replenish the supply of decent work. It would vastly improve the quality of care delivered to the elderly at home or in institutions; to young children in pre-kindergartens or day-care facilities; and to sick people whether in hospitals, hospices, outpatient settings, or their homes.

These are also the jobs that cannot be outsourced. Even if we succeed in reviving American manufacturing, the process of automation means that America is almost certain to become even more of a service economy over time. Good service-sector jobs can help replace for good factory jobs.

Many economists once thought that widening income inequality was caused in part by the shift to a service economy. Factory jobs, the argument went, tended to pay above the median wage because each job added a lot of value. The more productive and capital-intensive the machinery became over time, the more value each job added. So by the mid-20th century, industrial workers could command middle-class wages and good fringe benefits. By contrast, human-service jobs were hands-on and labor intensive. A nursing-home worker or a pre-k teacher was low-tech. So the pay was low, too.

We now know that this picture was highly misleading. How do we know? Just look at the global economy. Autoworkers in Mexico use the same production technology as workers in Michigan, but their pay is about $2 an hour. In China, autoworkers may earn 50 cents a day. American autoworkers were paid middle-class wages not because of something inherent about making cars but because the United Auto Workers had the power to negotiate good wages. Conversely, Scandinavia has no low-wage human-service workers because it has made a decision that everyone who takes care of the sick, the old, or the young is a professional or at least a paraprofessional and is compensated as such.

Since most human-service costs are paid socially, choices about how to compensate workers are social decisions. In the United States, with our meager social outlay, we define these human-service positions as low-wage, casual jobs. In the Nordic countries, the people who work in pre-kindergartens or child-care centers are either teachers or apprentice teachers. In France, to work in a *crèche maternelle*, you need more qualifications than a public school teacher—additional courses in child development and public health. When I recently interviewed Michel Rocard, who served as French prime minister from 1988–1991, he told me that his proudest success in resisting austerity demands was preventing the budget-cutters from reducing the qualifications and pay of pre-kindergarten teachers.

But in America, how can we possibly make all human-service jobs into good jobs? And aren't some of these jobs inherently low-skill? How much training, after all, does it take to empty a bedpan or change linen?

ALL IT TAKES IS MONEY

Start with the fact that at least 60 percent of the funding for these jobs is ultimately public money. Government pays upward of half of all health-care costs through Medicare, Medicaid, the State Children's Health Insurance Program, the Veterans Administration, and the health insurance of public employees. Forty-five percent of nursing-home care is paid by Medicaid. Home care is heavily subsidized by public agencies. And in early childhood education and day care, while the affluent may have nannies or private day-care arrangements, Head Start is a public program, and state, local, and federal agencies subsidize day care through a variety of social-service programs.

Clearly, the government has the leverage to set standards. The federal Davis-Bacon Act is a rough model. It was enacted in 1931 to assure that nonunion construction contractors would not undercut prevailing wage scales. Davis-Bacon requires that all federally funded construction pay prevailing wages, which in practice turns out to mean union-scale wages.

Davis-Bacon, of course, has its critics. There was a time when union bargaining power was accused of stimulating inflation by driving contract settlements that increased wages and benefits in excess of the rate of productivity growth. But whatever the reality of that long-ago charge, that time is long gone. Today, the problem is the opposite—wages lag far behind productivity increases, and the gains go instead to the top.

America needs a good-jobs strategy. And human-service jobs are a good place to begin.

How would such a transformation happen? Congress could require that any job in the human services supported in whole or in part by federal funds would have to pay a professional wage and be part of a career track. A minimum starting annual salary might be $24,000 a year, or about $12 an hour, an increase from the current common wage of around $9 an hour for nurse's-aide and home-care workers, and a sharp jump from the median wage of $7.69 for direct child-care providers. Opportunities for genuine advancement with pay increases would have to be part of the plan. For example, instead of defining a nurse's aide as a high-turnover, low-qualification, low-pay occupation, the job would require substantially more training, much of which could be done on the job. Such jobs would also be entry points to higher-level positions, such as licensed practical nurse. With more training and qualifications, these workers could be entrusted with more responsibilities, and nursing-home residents would get better care.

In the area of pre-kindergarten and day care, all such jobs would be teaching jobs rather than the high-turnover, largely custodial jobs of the current system. Raising the qualifications and pay of pre-k teachers, at least to the level of public school teachers, would be part of a national strategy of universal pre-kindergarten.

What of the argument that you don't need much training to baby-sit kids or provide basic care to senescent old folks? In fact, the development of young children and the quality of life of the elderly are profoundly affected by the quality of their caregivers. One of the best established findings of recent research on child development is that a dollar invested in early childhood education is one of the most cost-effective investments we can make. (See the *Prospect*'s December 2007 special report, "Life Chances: The Case for Early Investment in Our Kids.") The difference between child-development and baby-sitting, of course, is the availability of well-trained professionals who work with young children. Likewise, in the care of the elderly, having well-trained people improves not just seniors' comfort but seniors' physical health, cognitive stimulation, and capacity to live fulfilling lives.

Congress could require that any job in the human services supported in whole or in part by federal funds would have to pay a professional wage and be part of a career track.

We have seen a rough model of this kind of upgrading and professionalization in the strategies of unions that represent home-care workers. Home-care workers are often classified as independent contractors. As a result, they have no bargaining power, and public and nonprofit agencies often try to solve their own budget problems by paying home-care workers as little as possible. This creates a vicious circle of burnout and high turnover, even though the vast majority of these workers are conscientious and eager to perform well. Recently, in several states led by California, the Service Employees International Union (SEIU) and the American Federation of State, County and Municipal Employees succeeded in persuading legislatures and governors to approve laws or executive orders establishing public agencies with which home-care workers could bargain collectively. In California, the typical wage went from minimum wage to $10 an hour.

Another pressing need is public subsidy to help low-wage human-service workers ascend career ladders. In some occupations, these ladders exist in principle, and there are heartening individual stories of the nurse's aide who graduated to licensed practical nurse, or the classroom aide who went to night school and earned a teaching credential. Despite a few model programs, our society seems determined to make this path as arduous as possible. Almost by definition, someone working for $6 or $7 an hour, often with family responsibilities, has an extreme shortage of time as well as money. Though some rare individuals do succeed, it takes uncommon tenacity and self-sacrifice, and sometimes the sacrifice of one's own children. Why should we make this so hard? Other societies provide subsidies for living expenses during training.

This effort would be part of two broader labor-policy shifts that America sorely needs. First, we need to reverse the trend toward casualization of labor that has been occurring for three decades. One of the great advances of the 20th century was regularization of the employment relationship. Through

successful social struggle, growth of unions, and enactment of legislation, most jobs came to provide decent wages and fringe benefits. Workers could not be fired without cause. Loyalty to the firm was reciprocated. Grievance systems were created and respected. Economists termed these jobs primary labor-market jobs. Casual, secondary labor-market jobs, which paid less and offered no such guarantees, continued to exist, but they were the exception. In recent years, however, the shift to casual jobs has become the norm, and in low-paid human-service work, casual, high-turnover jobs are the industry standard.

Second, the upgrading of human-service work would reverse another insidious trend—the employer's habit of trying to increase the efficiency of labor by fragmenting jobs into separate tasks and paying the lowest possible wage for each task—a strategy known as Taylorism, after the early 20th-century "efficiency expert," Fredrick Winslow Taylor, who first recommended it.

MICHAEL SLOAN

However, when it comes to human services, many of the supposed gains of Taylorism are false economies. Studies of nursing homes have shown that better trained and paid workers can head off expensive conditions such as bedsores. Whereas registered nurses once performed a multiplicity of tasks and became very familiar with each patient, many hospitals have created a plethora of lower-wage occupations—phlebotomists to draw blood, technicians to perform tests, nurse's aides to take blood pressures—leaving the RN to cover more patients and do a far narrower range of tasks. But when the Massachusetts General Hospital ran an experiment, putting all care on one floor directly in the hands of RNs, the results were better patient outcomes and a more efficient use of human resources. The upgrading of human-service work would be part of an overdue process of reversing Taylorism. More workers would use a broader range of human skills to care for whole human beings.

BUT HOW MUCH MONEY?

A rough estimate of the cost of upgrading all low-wage human-service work into decent professional career paths is about $150 billion a year. A generally accepted figure of the cost of providing universal, high-quality pre-kindergarten and child care is about $50 billion a year. Upgrading existing jobs in day care for older children, care of seniors, and low-wage hospital-based work, would cost roughly another $100 billion.

Isn't that a lot of money? It certainly is, if you're invoking conventional budget assumptions that predate the current recession and financial collapse—though it's not a lot of money compared to the cost of military operations in Iraq and Afghanistan, which is now budgeted at $188 billion annually. To put this in perspective, $150 billion a year is approximately 1 percent of gross domestic product.

But for the rest of this decade, and perhaps well beyond, the American economy faces two huge challenges. The first is to dig out of the most serious financial collapse since the Great Depression and its spillover effects into the rest of the economy. The second is to restore the income of American workers.

A strategy that increases Americans' purchasing power can take a variety of forms. Besides good human-service jobs, it could include massive public spending on deferred public infrastructure needs, as well as a green recovery path, creating new alternative-energy industries and jobs retrofitting homes and offices. Both strategies would also create decent job opportunities. Enacting the Employee Free Choice Act, protecting collective bargaining rights, would also increase the ability of workers to bargain for a decent share of the pie.

Voters are only going to embrace serious public spending if we think big. The promise of millions of good service-sector jobs that can't be exported—providing superior care to our children, our parents, and ourselves—is an example of the kind of idea that could capture the national imagination and rekindle the necessary political support for serious public outlay. This is the kind of idea that could be embraced by a broad coalition of experts, opinion leaders, editorial writers, grass-roots groups—and the next administration. It touches a national nerve of anxiety about where the good jobs will be for our children—and who will take care of us as we age.

I don't mean to suggest that we should ignore the upgrading of other service jobs. As our friends at the SEIU have shown, collective bargaining can improve janitor jobs as well as jobs of home-care workers, just as unions once upgraded factory jobs. The labor union UNITE-HERE has turned low-wage hotel jobs into middle-class jobs. We need a decent-work strategy for the whole economy. But human services are one place where the federal government has direct leverage.

Before this recession is over, we will need to find several hundred billion dollars a year for a recovery strategy—and what better place to begin than by restoring workers' paychecks? We can find that money by reclaiming progressive taxation, by defending deficit spending in a deep recession, by shifting federal dollars from a pointless war to a domestic recovery, and reviving trade unionism. The political situation is comparable to the one that Franklin Roosevelt faced in 1933. Policies that were unthinkable yesterday are just the bare beginning of an adequate response today. TAP

Culture & Books

"Beyond the obvious and important case of Muslims, just which religious minorities are most unpopular and in need of defense?"

— PAGE 40

LEON NEAL / REUTERS / LANDOV

Not Your Parents' Punk: Self-described "gypsy punk" band Gogol Bordello performs in London in 2006.

MUSIC

MULTICULTURE CLUB

"Kids these days" belong to the most diverse generation America has ever had. No wonder they like music that blends sounds from around the world.

BY AMANDA MARCOTTE

Say the words "punk rock," and most people, whether they're fans or not, will conjure up thoughts of The Clash and The Ramones—drums, guitar, and bass, the sound stripped down to rock's basics, sped up and turned up twice as loud. But one self-described punk band that's been steadily creating buzz for years now adds an accordion and a fiddle to the mix, as well as women marching around smashing cymbals. The band, Gogol Bordello, calls it "gypsy punk," with the volume, speed, and bad attitude of punk rock laid over Eastern European melodies and rhythms. What's remarkable about the band is that its members, who have emigrated to the U.S. from Ukraine, Russia, Israel, Ecuador, and Ethiopia, feel no more constrained by genre than by nationality. The music is rich and inventive, drawing on not only punk rock and gypsy folk music but also American-style rap (in various languages), reggae-style dancehall singing, and dub effects.

The popularity of Gogol Bordello's genre-blending sound defies the conventional wisdom about American musical tastes—that we never venture outside our own narrowly defined cultures. Music marketers' assignation of a band to a particular genre alarmingly depends more on the band members' races than on their sound. The local Austin "alternative rock" (read: music by white guys ages 18 to 35) station finds it appropriate to inject hip-hop by the Beastie Boys and Eminem into its rotation, but darker-skinned artists with the same sound are only heard on "urban" stations. If your band comes from anywhere but the U.S. or the U.K., welcome to the section at the back of the store reserved for middle-aged hippies broadening their horizons, titled "World Music."

Music marketers have yet to realize that American ears are opening up to a wider variety of sounds. It just makes demographic sense. Unlike the baby boomers, Gen X and Gen Y have grown up in an America with escalating immigration, affirmative action, and a general emphasis on that right-wing bogeyman "multiculturalism." Two major trends that demographers talk about, the "graying of America" and the "browning of America," are trends that largely diverge from each other, with white people still dominating the older, grayer section of the population and a much more diverse mix of races, ethnicities, and even religions characterizing the younger. Which isn't to diminish the fact that this is still a racist and xenophobic nation, but "kids these days" deserve some credit for taking steps toward more progressive views on diversity. Add the globalizing power of the Internet to the mix, and you've got a whole generation whose tastes are influenced by a hodgepodge of cultures.

The urge to borrow and take inspiration from the music of other cultures is nothing new, of course. The Beatles famously

helped introduce the sitar to American and British pop music after they gained an interest in India. The band Santana made a splash bringing Latin American rhythms to American rock music in the late 1960s. Musicians in the 1950s, mostly African American at first, borrowed some of the sounds from country-western music and injected them into R&B to create what became known as rock 'n' roll. R&B itself developed from two separate arms of black musical tradition, combining upbeat jazz riffs with blues rhythms. In the Caribbean, musicians were hearing R&B and rock 'n' roll and manipulating them into the local sounds that became ska, rocksteady, and reggae.

But the concept of blending the music of various cultures kicked into high gear in the 1970s. Punk musicians in the U.K. like The Clash, The Specials, and The Slits began to borrow not just a sound here or a sound there from Caribbean music but to lift entire genres like reggae and ska and put a punk spin on them. In the U.S., the jazz fusion band Mind Power decided it would rather be a punk band and ended up combining punk with reggae to create a distinctive and widely copied sound called hardcore. In the late 1970s, bands like the Talking Heads began to borrow heavily from traditional African music for their rhythms, creating hits like "Life During Wartime."

But it was hip-hop in the 1980s that really opened the door to radically blending sounds from different cultures. Hip-hop pioneer Afrika Bambaataa didn't limit himself to disc-jockeying strictly from one or two kinds of music but spread his net wide, layering the sounds of funk and disco with European electronic music and rock 'n' roll, creating an entirely new sound. One of his big hits was "Planet Rock," based on the herky-jerky avant-garde electronic music of the German band Kraftwerk, a sound heretofore unheard that was defined as hip-hop. Bambaataa's mentality is still evident in today's hip-hop hits, with most of your better DJs feeling empowered to bring a variety of cultural influences into one track. Kanye West's recent smash hit album *Graduation* samples French techno, 1970s German electro-rock, jazz, blues, and Elton John.

Bambaataa wasn't just a musical innovator. He envisioned popular music as a force to smooth over the cultural tensions that create hostility, misunderstanding, and violence. His music will make even the grumpiest cynics bounce their heads and wave their hands in the air for "peace, unity, love and having fun," to quote one of his refrains, but it's far from a simplistic, starry-eyed message. Bambaataa has rolled up his sleeves and done the hard work of making peace, working both abroad to help end apartheid in South Africa and at home in the U.S. to quell gang violence. His music is an extension of that.

A world free of cultural tension is still far off, but Bambaataa's hopes for music as a cultural uniter took another step toward reality with the electronic music of the 1990s. The style has turned into such a worldwide cross-pollinator that it's become a cliché in techno music for the vocalist to call out all the various world hotspots ("Cairo! Buenos Aires! Seoul!") where the same hot dance music is played. Various subgenres of electronic dance music, from techno to house to trance to drum and bass, blend the sounds of American and European DJs with the influence of African drumming. And that's just the rhythm section; DJs mix music from every corner of the globe into one big mishmash.

Hip-hop may have started the process, and electronic dance music may have continued it, but now an entire generation has grown up hearing music influenced by a blend of cultures and genres. Today's hipster/underground music scene, where

Hip-hop started the process, electric dance music continued it, and now an entire generation has grown up hearing music influenced by a blend of cultures.

bands get their start before going mainstream, is populated by artists who have rebelled against racially loaded genre distinctions. Like Gogol Bordello, the band Beirut draws inspiration from the folk music associated with immigrants. Brazilian electro-rockers Cansei de Ser Sexy are led by a half-Japanese woman who sings in both English and Portuguese about American pop culture (sample song titles: "I Wanna Be Your J.Lo" and "Meeting Paris Hilton"). The group has been featured in an iPod commercial. Another Apple commercial favorite, Ozomatli, blends the Latin American sounds of salsa and cumbia with hip-hop, reggae, and Middle Eastern dance music. Artists like Professor Shehab and the Qaballah Steppers mix hip-hop and reggae with traditional Persian music, while the Gorillaz, Bloc Party, and Gnarls Barkley have all found wild success with a blend of disco, hip-hop, funk, and rock.

Even the mainstream music scene is becoming more genre-bending. The Colombian pop icon Shakira is one of the artists demonstrating that the American listening audience might be running ahead of the marketers. After putting out an English-language album that hit big in the U.S., Shakira butted heads with her label. "The industry would have liked me to put out another English album six months after *Laundry Service*," she told *The Economist* last July. Her follow-up, the Spanish-language album *Fijación Oral Vol. 1*, proved the label wrong when it debuted at No. 4 on the Billboard charts. Her doubters should have seen it coming.

Innovative Sri Lankan hip-hop star M.I.A., who grew up in Sri Lanka, India, and the U.K., is another perfect example of the kind of cross-cultural 21st-century artist Afrika Bambaataa envisioned. M.I.A. has benefited immensely from the way the Internet allows people around the world to share styles and ideas across geographic borders. And her fan base in the U.S. grew almost exclusively by word of mouth, demonstrating yet again that listeners are way ahead of marketers. (The mainstream music business has since caught on—M.I.A. has been heralded as one of the best working artists today by publications like *Rolling Stone* and *Blender*.) M.I.A. intended to record her most recent album, *Kala*, in the U.S., but visa complications prevented her from doing so. Instead, she hopped around the world, recording the various tracks in different countries, giving the record a truly international flavor.

These multicultural music trends are only in their infancy and could still be smothered in the cradle. Yet there's reason for optimism. The number of artists pushing this music-without-borders ethic is still small, but their audiences are big and growing, demonstrating that people—particularly young people—are hungry for more diverse, global, innovative music. It's time for the record industry to catch up. **TAP**

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BOOKS

RELIGIOUSLY EQUAL?

LIBERTY OF CONSCIENCE: IN DEFENSE OF AMERICA'S TRADITION OF RELIGIOUS EQUALITY BY MARTHA C. NUSSBAUM, Basic Books, 406 pages, $28.95

BY PETER STEINFELS

If Democrats win the White House and Congress next November, one reason will be the party's success in neutralizing suspicions that it is hostile to religion, but that will not be the end of the matter. Whether religious Americans feel they have a place in a government shaped by liberals will depend on how a new administration and Congress respond to the issues that religious groups care about.

Not that all conflicts with religious groups can be—or should be—avoided. Eight years of Republican manipulation of religious sentiments and dubious alliances with religious leaders should not be followed by counter-pandering. The more tempting reflex, however, could be payback. And if the ensuing battles threaten legitimate religious concerns for freedom and equality, liberals will face a broader religious opposition than they did before.

The danger is easier to spot than to overcome. The First Amendment forbids the government from establishing any religion or constraining its free exercise, but those two prohibitions are notoriously in tension. What looks to one person like protection of free exercise often looks to someone else like establishment. Constitutional interpretation quickly falls victim to likes and dislikes, political partisanship, cultural ignorance, and sheer prejudice.

Alertness to that danger is one of Martha Nussbaum's major themes in *Liberty of Conscience*. One of the nation's leading political and moral philosophers, Nussbaum is ardent in her admiration of America's liberty and respect for different religious traditions. That admiration was reinforced by the research for her last book, *The Clash Within* (Harvard, 2007), which described the dangers posed by the Hindu right in India.

In practice, thinking about religious freedom in the United States has been dominated not by a principle but by an image, the wall of separation between church and state, a metaphor that we owe to Thomas Jefferson's 1802 letter to the Danbury Baptist Association. Although many people continue to frame church-state questions in terms of how "high" the wall of separation should be, dissatisfaction with this approach has grown for much the same reason as dissatisfaction with images of "free markets" in a world so complex and interrelated that government actions and responsibilities cannot be neatly compartmentalized.

"Nobody really believes in separation taken literally across the board," writes

Nussbaum. "The modern state is ubiquitous in people's lives, and if we really tried to separate church from state all the way, this would lead to a situation of profound unfairness," depriving religion and its institutions of supports provided to everyone else. "The bare idea of separation," as she frequently puts it, is insufficient to distinguish between "how far and when separation is a good thing" or explain "why some interactions between government and religion are deeply objectionable, others less problematic."

Nussbaum is clearly writing in the wake of Philip Hamburger's magisterial *Separation of Church and State* (Harvard, 2002), which demonstrated how the concept, which was foreign to the thinking of most of the Founders, became belatedly incorporated into First Amendment discussion as a result of fear and prejudice, particularly anti-Catholic prejudice. "No group in our midst ... has suffered as much from fear and loathing as Roman Catholics," Nussbaum states. "The call for a 'separation of church and state' has not always been the decent equality-protective slogan that people who respect equality might like it to be. It actually gained currency as part of an anti-Catholic political movement."

Ultimately, separationist language led to the third of the Supreme Court's three-pronged requirement (the so-called *Lemon* test). Government actions must not only (1) serve a secular purpose and (2) be neutral in neither advancing nor inhibiting religion but also (3) avoid "excessive government entanglement with religion."

Entanglement, Nussbaum objects, "is a very vague standard, given the ubiquity of government in modern life." It pushes in the direction of a "relentless exclusion of religious institutions from all public benefits." Despite her egalitarian and inclusive politics, Nussbaum, to her credit, does not let the liberals and the left escape criticism, especially for a dogmatic attachment to separationist language.

In Nussbaum's view, government should be guided by the rule of an equal respect and protection of conscience that avoids any officially endorsed religious orthodoxy and maintains everyone's equal standing in the public realm. This framework, she believes, will justify separation of religion and state in some circumstances and legal accommodation of religion in others.

Nussbaum derives her position by marrying the ideas of Roger Williams to the philosophical framework of John Rawls. In her view, Williams was a more profound and daring proponent of religious freedom than John Locke; as the founder of Rhode Island, he defended liberty of conscience for "Jewes, Turkes, Papists, Protestants, Pagans" (the latter covering his Narragansett Indian neighbors). What Williams forged in the heat of religious fervor, Nussbaum tries to translate into coolly secular Rawlsian terms. Although the marriage has a shotgun quality, Nussbaum's approach, with its emphasis on equality, appears plausible and relatively workable.

Its most persuasive rival is Kent Greenawalt's argument, in his sane and comprehensive *Religion and the Constitution* (Princeton, 2006), against interpreting religious liberty on the basis of any "single overarching value" rather than "multiple values" relevant to particular contexts. Nussbaum and Greenawalt are not all that far apart. Both agree that honoring equality demands that different people be treated similarly under some circumstances, differently under others. In short, it depends.

Historically, alas, it has often depended less on any consistent application of constitutional principle than on subjective sympathies and animosities. "Fear of strangers, demonization of new or unpopular groups, panics about the future of the nation" or about sexuality and the family have often overridden the "fundamental constitutional commitment to ... equal liberty in religious matters," Nussbaum writes. That is why her book's underlying storytelling is at least as important as its philosophical argument.

The plotline is one of defending minority outsiders and newcomers against majority ignorance and antagonism—Catholics and Mormons along with Seventh-day Adventists and Jehovah's Witnesses in the past; atheists, non-theist Buddhists, Hindus, and Muslims in the present. There is a strong personal element in this storytelling.

Nussbaum's professional role as a philosopher colors her characterization of conscience and religion. She is not much interested in religious communities and their need for institutional elbow room to pass on their traditions. Her heroes are individual seekers or adherents to minority faiths struggling against a dominant orthodoxy. Although their stories complement her legal analysis, the result often feels one-dimensional or somehow off-key.

She laments, for example, that "after World War II, left-wing intellectuals played a key role in denigrating Catholics as bad citizens," and criticizes the writer Paul Blanshard for purveying (first in *The Nation* and then in best-selling and influential books) classical anti-Catholic tropes in ignorance of broad-minded liberal Catholic thinkers such as Jacques Maritain. But wasn't the bigger problem with Blanshard his failure to acknowledge millions of ordinary Catholic Americans who, completely oblivious to papal dicta, had been demonstrating their loyalty to the U. S. Constitution, in government and on the battlefield?

An Episcopalian raised to be ashamed of associating with lesser religious breeds, Nussbaum converted to Reform Judaism. One wonders if what she describes as her "remorse and self-criticism about that earlier experience of shame" really equips her to champion religious minorities as much as she seems to assume.

Today, once you get beyond the obvious and important case of Muslims, just which religious minorities are most unpopular and in need of defense? Joseph P. Viteritti has made the provocative case in *The Last Freedom: Religion from the Public School to the Public Square* (Princeton, 2007) that seriously religious Americans constitute only a small minority and that the vast majority, despite their superficial religiosity, lead secular lives with essentially secular values. In Viteritti's view, it is "extreme secularism," accepted by this get-along, go-along majority, and not, as Nussbaum fears, an evangelical Christian orthodoxy, that threatens to curtail the religious freedom of those devout enough to be different.

Viteritti would include the fundamentalist parents in eastern Tennessee who in 1983 found hundreds of religiously objectionable messages in their school district's chosen readers. Religiously prescribed gender roles were supposedly threatened by a reference to boys cooking. Witchcraft, Satanism, and the equation of all religions infected *Macbeth*, *The Wizard of Oz*, and *The Diary of Anne Frank*. Unable to ban the readers, the parents wanted their children excused from the classes using them and allowed to do similar work with other texts. The school district ultimately refused and, when the children did not attend the reading classes, in effect expelled them.

Now here is a case to test liberal principles as well as most Americans' cultural sympathies. Even conservative Tennessee churchgoers thought these parents, though undoubtedly sincere, were on the fringe. The case, which soon became a media smackdown between national

advocacy groups from the right and the left, generated four judicial opinions, one at the local level and three at the appellate, where the decision went against the parents.

Nussbaum endorses the outcome, sounding very much the philosopher who believes that state schooling should educate children out of such religious narrowness. Viteritti, not surprisingly, favors the local ruling that would have allowed the parents to opt out and conduct parallel reading classes under the state's home-schooling law. Greenawalt finds the appellate decision "reasonable" but would have preferred some greater recognition of the parents' religious rights. It is interesting that Nussbaum shows more sympathy for 19th-century Mormon polygamists and exotic sectarian snake handlers than these contemporary ultra-fundamentalist parents.

Indeed, she opens her book with a warning that religious freedom is under dire attack by conservative Christians, citing ominous phrases from John Ashcroft, George W. Bush, Lt. General William Boykin, and Alan Keyes (yes, Alan Keyes). Five pages later, she admits "there is little point in simply adding to the swelling chorus of alarm over 'the religious right'" and eventually she concludes that, despite Clarence Thomas' and Antonin Scalia's opinions, constitutional protection of religious freedom is fairly healthy. But the specter of an enforced evangelical Christian orthodoxy keeps popping up throughout her book.

For someone who attributes political overreactions to fears of strangers, psychological anxieties, and panics about the future, she never wonders whether she might be exhibiting some of her own. It would be a shame if that weakness obscures those parts of her history and argument that liberals and progressives should find challenging and useful. TAP

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BOOKS

RULES OF ATTACK

STRIKING FIRST: PREEMPTION AND PREVENTION IN INTERNATIONAL CONFLICT BY MICHAEL W. DOYLE, Princeton University Press, 175 pages, $24.95

HEADS IN THE SAND: HOW THE REPUBLICANS SCREW UP FOREIGN POLICY AND FOREIGN POLICY SCREWS UP THE DEMOCRATS BY MATTHEW YGLESIAS, Wiley, 272 pages, $25.95

BY WILLIAM A. GALSTON

Did September 11 "change everything"? Did it change *anything*? Did September 11 signal the end of liberal internationalism—the polestar of American foreign policy from Franklin D. Roosevelt to Bill Clinton—as the Bush administration claims? Did it underscore the need for an amended view of the threats America faces and the international norms that should govern the uses of American power, as Michael Doyle suggests? Or did it create a political climate that obscured the continuing validity of existing norms, as Matthew Yglesias insists?

Liberal internationalism is the effort to subject the anarchy of nation-state relations to common rules and institutions. For legal purposes, states are regarded as equal, despite profound differences in governance. But liberal internationalism is not morally neutral; it embodies a commitment to the peaceful resolution of disputes whenever possible, and it endeavors to restrict the circumstances in which the use of force is necessary and legitimate.

During much of his administration, George W. Bush has gone out of his way to question the liberal internationalist norms that had long guided American foreign policy. His administration has displayed a visceral aversion to treaties that might restrict the United States' freedom of action and has treated traditional allies as nuisances to the extent that they do not bend to our desires. He has rejected the traditional doctrine limiting first strikes to *preemptive* responses to imminent attack in favor of a new doctrine approving *preventive* wars against more distant threats. As he declared in June 2005, "After September 11, I made a commitment to the American people: This nation will not wait to be attacked again. ... We will take the fight to the enemy."

The risks of this approach are now clear. Identifying prospective threats requires accurate assessments, and if decisions to strike first rest on assessments that turn out to be false, the ensuing mistakes will cost the nation blood, treasure, and credibility. The contrast between the first and second Gulf Wars—between George H. W. Bush's patient internationalism and his son's truculent unilateralism—is painfully instructive. Moreover, as Doyle, a well-known international-relations scholar, points out in his new book *Striking First*, the Bush doctrine is not only dangerously "subjective" and "open-ended" but also an "invitation to chaos" because other states may claim the right to invoke it for their own purposes.

According to a doctrine first articulated by Secretary of State Daniel Webster in 1841, preemptive war is justified if it is intended to counter an attack that is "overwhelming" in its potential impact, leaves no alternative to force, and is imminent and therefore affords no time for "deliberation." As Doyle observes, however, these criteria are so demanding as to exclude nearly every real-world, historical example of preemption, including some that appear legitimate in retrospect. And Webster's doctrine seems especially unsuited to today's circumstances because the classic countermeasures against foreign threats—dissuasion, defense, and deterrence—are less likely to work against non-state actors potentially armed with weapons of mass destruction and willing to kill and die for their beliefs.

Instead of embracing the Bush administration's radical alternative, however, Doyle calls for updating the doctrine of preemption without collapsing it into prevention. In place of Webster's doctrine, he proposes four principles of assessment. "*Lethality* identifies the likely loss of life if the threat is not eliminated. *Likelihood* assesses the probability that the threat will occur. *Legitimacy* covers the traditional just war criteria of proportionality, necessity, and deliberativeness of proposed responses. *Legality* asks whether the threatening situation is itself produced by legal or illegal actions, and whether the proposed remedy is more or less legal." After fleshing out each of these principles, he applies them to a number of real-world cases. Israel's strike on the Osirak nuclear reactor meets his tests for justified preemption, while the war in Iraq does not, largely because U.S. intelligence about the prospective threat was "weak."

But, as Yale law professor Harold Koh argues, why not have a bright-line prohibition on unilateral anticipatory war making? Doyle retorts that the states that ratified the U.N. charter were not entering a suicide pact. Although common-sense principles ought to constrain discretionary state action, even the wisest rules fail to anticipate all contingencies, and we must depend on the wisdom and moderation of those with the power to act. An updated international regime governing the use of force is overdue, but the decision to go to war ultimately requires the judgment of leaders who are subject to political rather than legal accountability.

YGLESIAS, AN ASSOCIATE EDITOR AT *The Atlantic*, is a feisty blogger who has long since lost patience with the leaders of the Democratic Party. The title of his new book, *Heads in the Sand*, sums up his critique: In the face of the doctrinal challenges that Bush's foreign policy presented, Democrats failed to respond in a coherent, principled manner and resorted instead to a politics of evasion. This strategy was a moral and political failure. The Democrats' 2002 effort to change the subject from terrorism to health care yielded losses in the midterm elections. John Kerry's presidential campaign fell prey to the "fundamentally contradictory story about U.S. national security" that he and his advisers offered. And despite the Republican reverses in the 2006 elections and the bipartisan Iraq Study Group's recommendations, the Democratic congressional leadership has been unable to redeem its promise to end the Iraq War.

Yglesias embeds this narrative in a larger thesis. Because the American people have long seen Democrats as less credible than Republicans on national security, Democrats have been conditioned to approach security debates from a "reflexive posture of fear," which makes it "impossible to practice politics effectively." As a result, they have been unwilling to take on the "fundamental theoretical premises underlying the hypermilitarism of the Bush years" or

to offer a "principle-driven alternative."

Yglesias argues that this is less difficult than it appears: "The need for novelty has been vastly overstated." There is nothing wrong, or outdated, about liberal internationalism. Indeed, its underlying logic of "rule-governed reciprocity" is more relevant than ever. Applied to our immediate circumstances, liberal internationalism would require us to admit that the invasion of Iraq was a mistake, forswear unilateral preventive war, negotiate with Iran, and pursue multilateral approaches to nonproliferation. More broadly, we should return to an international legal regime whose institutions and procedures rest on the equality of states, regardless of differences of regime, because there is no other workable basis of international legitimacy.

Despite the clarity of Yglesias' argument, it is not fully persuasive. In the first place, Yglesias regards the case against invading Iraq as a slam dunk: Only the administration's aggressive duplicity, abetted by Democrats' craven timidity, permitted the invasion to proceed. This is a caricature of the situation we faced in 2002, when reasonable people could be found on both sides of the question. Although I opposed the invasion in this magazine in the fall of 2002, scholars and politicians I have long respected offered arguments in favor that gave me pause. *If* Saddam Hussein had possessed or was aggressively pursuing weapons of mass destruction, and *if* there were a serious chance that he would assist terrorists in attacks against the United States or its vital interests, and *if* no means short of war could have clarified the dimensions or abated the threat, and *if* the military means at our disposal offered a high probability of success, *then* there would have been a compelling moral and political case for invading Iraq with the aim of transforming its regime. Although we now know that none of these conditions was satisfied, the situation was much less clear at the time.

In the second place, Yglesias' narrative overlooks an inconvenient truth. While President Bush could rely on a united party, Democratic leaders enjoyed no such luxury. The Democrats were nearly split down the middle: 39 percent in the House and 58 percent in the Senate voted for the Iraq War resolution. Or to look at it the other way, just over half the Democrats in Congress voted against the resolution—evidence for something other than the spinelessness that Yglesias sees at the root of the Democrats' problems. The simple fact is that Democrats disagreed on Iraq while Republicans did not, and it is difficult for congressional leaders and presidential candidates to sound clarion calls while seeking common ground within a divided party.

Finally, Bush responded to 9-11 by tearing up the previous foreign-policy playbook, and the results have been disastrous on many fronts. It is tempting to respond, as Yglesias does, by advocating a return to the pre-September 11 status quo, but this would be a mistake. Although 9-11 did not change everything, it does not follow that it changed nothing. To survive as a workable theory of international relations, liberal internationalism must adapt, as Doyle rightly insists.

The threat of fanatical non-state actors obtaining nuclear, chemical, or biological weapons is large enough that we must take it more seriously than we did in the exhilarating years after the fall of communism. President Bush was wrong about many things, but not this. Regrettably, his administration's mindset and modus operandi got in the way. To do better, the next administration must stop endlessly insisting that other countries adopt our outlook as if they were slow and recalcitrant schoolchildren. We have to strike the compromises necessary for effective new nonproliferation agreements. And to reach those compromises, we will need a new approach that regards prudent treaties as sources of stability and strength, not as bothersome restraints on our freedom to act. And we must accept the disagreeable fact that despite our commitment to a law-like regime of international affairs, there may be rare occasions when we find ourselves compelled to act alone. **TAP**

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Business As Usury

BY THOMAS GEOGHEGAN

BEFORE CONGRESS GOES AFTER BANK MISDEEDS ON Wall Street, let's stop the petty theft on Main Street. I mean the predatory mortgages and usurious loans. Had we protected the poor and the weak, the problems of our mighty banks might not be so great. Why don't we have a "National Usury Act"? Why, in the party of William Jennings Bryan, is there no one demanding an interest cap on our Visa cards and our MasterCards?

But let's start with payday loans. In Chicago, payday lenders charge more than the Mob wants for juice loans. I have a client who pays 700 percent! And a lawyer friend at Legal Services told me, "I had a woman come in—she gets $1,100 a month for Social Security and pays out $800 a month for her payday loans."

These people aren't idiots, or in need of counseling or more "disclosure." One of my clients was in payday-loan hell and climbed, cut and bleeding, back to solvency. But then the city booted her car, an uncle living with her lost his job ... she's back in hell again.

In a country of no real safety nets, the ersatz American safety net is a payday loan of 700 percent. In 38 states, payday lenders run wild. I should say that in Illinois, there is a cap of 400 percent. But this applies only to loans of 120 days or less, so the lenders just make the loans of 121 days or more. The Illinois General Assembly, in the grip of the bank lobbies, just looks the other way.

If you like, we Americans are "at fault." We go into debt too easily, we have bad moral character. But who corrupted us? America's financial and political elites, when they deregulated interest rates and loans.

Think back to the dueling bankers in the Frank Capra movie *It's A Wonderful Life*. There's mean Mr. Potter and nice George Bailey, and both of them want their loans to be repaid. The professors in our law schools used to wag their fingers and state the golden rule: "Ladies and gentlemen, the loan must be repaid!"

So both Mr. Potter and George Bailey wanted to lend only to people of good moral character: After all, in that innocent and regulated era, they could only loan out money at no more than 9 percent. If you can only lend at 9 percent, you want the loan repaid.

But when Visa and MasterCard came in, and banks could lend at 17 percent or 18 percent or higher, then only the bankers who still wore morning suits and spats wanted the "loan to be repaid." Suddenly, with deregulation, the banks were no longer subject to interest-rate caps at all. Liberals on the Supreme Court hurried this deregulation along. In the 1978 *Marquette Bank* ruling, Justice Brennan struck down any state law that tried to regulate the interest rate on a Visa card from a "national" bank, subject to the National Banking Act passed at the time of the Civil War.

Today, bankers *don't* want the loans repaid. After all, if you can charge 700 percent on a $100 loan, do you want the loan repaid? That may be an extreme case, but everyone knows that the big banks offering Visa cards and MasterCards don't screen for moral character. They don't want good moral character. Our way of life depends more and more on people not having good moral character. That's why instead of dressing in our best to ask Mr. Potter for a loan, we get credit cards unsolicited in the mail.

Yes, it explains why we're all in debt. But it also explains why the investment of our capital has tilted away from manufacturing with its meager return and into financial services and banks, where rates can go up to, well, 700 percent. Is it any surprise that we're de-industrializing? The left carries on about NAFTA but never dares to mention a cap on interest rates. We may be the first society since the Code of Hammurabi to be operating with no law against usury at all.

Unlike Mr. Potter and George Bailey, today's bankers don't want their loans repaid.

I'd at least like to hear a Democrat, any Democrat, call for a cap on interest rates. For Visa and MasterCard, I'd go for 12 percent. (Does anyone bid 11?)

As to payday loans, let Congress end them. But how will people get money? If people can't get credit from Visa and MasterCard, let's set up little state-run banks to offer little payday loans, or encourage NGOs to do so. New Dealers used to think in those terms.

But they used to go to movies like *It's A Wonderful Life*. TAP